

French move to write off some loans to Africa

By GEORGE GRAHAM in Paris

THE WAY has been opened by President François Mitterrand for France to transform into grants some of its loans to the poorest countries of Africa, while insisting that negotiations should be carried out case by case.

Speaking at this weekend's Franco-African summit in Antibes, Mr Mitterrand said that France had in effect already reached this result by permitting delay after delay in debt repayments. But he accepted that his country "should be able to abandon a certain number of loans to the poorest countries, threatened with a fatal hemorrhage by the constraints of their debt payments."

He was reacting to the demand by President Mobutu Sese Seko of Zaire that France follow Canada in transforming a number of its loans to sub-Saharan Africa into gifts. Mr Mobutu also put forward the African Development Bank proposal for the transformation of debts into bonds of at least 20 years maturity.

The French Government, which hosts the Paris Club of creditor nations for the rescheduling of official debt repayments, has traditionally opposed outright debt forgiveness. Officials argue that such a move would damage the credibility of the debtor countries and cut them off from access to further finance.

Some African countries asked for their debt repayments to be rescheduled over 10 years, with a grace period of 10 years before repayments start. The Paris Club has only this year begun to reschedule the poorest countries' debts over periods longer than 10 years.

President Mitterrand accepted in principle the recent Organisation for African Unity call for an international conference on the debt problem to take place next year. He said France would continue to voice African concerns to its industrial partners.

France was the leading supplier of aid to sub-Saharan Africa last year, with \$1.5bn of loans and grants disbursed.

Norway police to probe bonds resale overseas

By Karen Fosell in Oslo

NORWAY'S Banking, Insurance and Securities Commission has turned over to Norwegian police for criminal investigation a case involving what may be the illegal resale abroad of more than Nkr4bn (\$344m) worth of domestic Treasury bonds.

The bonds were resold outside Norway between November 1984 and July 1985, in violation of a 1984 ban which allows only foreign insurance companies to make such a purchase. However, insurance companies needing "technical reserves" to protect their requirements for Norwegian currency are allowed to purchase the bonds if they secure a special licence from the Norwegian Central Bank. But these bonds must be held in Norway.

In autumn 1984, several foreign insurance companies exercised their right to purchase, when they needed exceptional reserves. Norwegian brokers handled the transactions and police have now been asked to establish whether there was an organised export of bonds.

According to the Commission's report, most of the bonds were resold within 14 days of purchase to other foreign investors, giving the sellers a 3 to 4 per cent profit.

Norway's domestic bonds are attractive to foreign investors because of their high yields of up to 12 to 14 per cent.

Goldsmith to step down from L'Express

By Paul Botta in Paris

SIR James Goldsmith, the Anglo-French financier, has decided to step down as chairman of the editorial committee of L'Express, one of France's leading weekly news magazines.

The decision came as a surprise because Paris had been buzzing with rumours in recent weeks that Sir James was contemplating buying back control of the news magazine. Sir James was also reported to be considering investing in Le Quotidien de Paris, a Paris daily newspaper.

Until last summer, Sir James controlled L'Express through his main French company Generale Occidentale. Although he sold his controlling stake in GO last July to the Compagnie Generale d'Electricite, the large privatised French telecommunications and heavy engineering group, Sir James remained chairman of the magazine's editorial committee.

By suddenly deciding to step down from the editorial committee of L'Express, Sir James has again confounded French business circles. The magazine simply said that Sir James had decided to leave the committee because he planned to be absent from France for several months.

Credit card forgery crackdown in France

By George Graham

FRENCH police believe they have broken up the country's biggest ever network of credit card forgers.

About 40 people were arrested at the weekend in Paris, the Marseille region and in Spain, where the false cards were manufactured. The network is thought to have caused losses of FF250m (\$49m) to FF300m.

France has led the world in the development of "smart cards," bank and credit cards equipped with electronic chips, but it has also led the world in card forgeries.

Total losses on forged credit cards this year are estimated at FF100m by the Carte Bleue group, the major French card distributor and part of the Visa network.

France suffers another FF250m to FF300m a year of card fraud, for instance from the use of lost or stolen cards.

Carte Bleue hopes that the introduction of smart cards will cut down sharply on credit card fraud. The dismantled card forging network manufactured duplicates of existing cards, using carbons from credit card sales forms.

John Wyles on the political legacy of a man who drew inspiration from Mussolini

Italy's neo-fascists lose their post-war Duce

A DAPPER little man with a white, clipped moustache, who might preside elsewhere over a Rotary Club dinner or a discreet wine tasting, bowed out at the weekend as the dominant post-war influence over Italian fascism.

For at least two generations of Italians, Mr Giorgio Almirante has personified the Movimento Sociale Italiano (MSI), a party politely referred to as "neo-fascist" because a revived fascist party was banned by the nation's post-war constitution.

But Mr Almirante, now 72, has always drawn his inspiration from the man he still professes to love and, indeed once served - the much bulkier and undoubtedly more charismatic Benito Mussolini. He met his idol only once when he was chief aide to one of Mussolini's ministers in the infamous Republic of Salò, set up behind German lines in

1943 after the war and the Italian people had begun to turn against Il Duce.

Mr Almirante was a founding member of the MSI in the early post-war years, and its first party secretary. After a break of several years he returned to the office in 1969 and has maintained the party's position as Italy's fourth largest grouping, taking between 5 per cent and 7 per cent of the vote in general elections.

Its supporters are an odd coalition of malcontents, idealists and, almost certainly, activists on the revolutionary fringe. Most of its votes come from the north of the country, from a radical, hard-right culture which in some cases may be republican, in others monarchist. In the south, the support is more obviously nostalgic for the era of discipline and punctual trains; often eccentric, usually lower middle class.



Almirante divided party

While Mr Almirante has always condemned political violence, he has never fully allayed suspicions that the MSI took a benign view of the attempts to

destabilise Italy in the 1970s. Some of its activists have been condemned for terrorist offences and the party has, on more than one occasion, numbered people of dubious background among its parliamentary representation so as to afford them immunity from trial.

The little man's legacy is a party which is in its fairly normal state of deep division, only more so. There were no fewer than four candidates for the succession, each representing various conflicting views of what ought to be the party's future strategy.

Some want to stay where it is, looking backwards into the future, others aim to move it on to more politically respectable centre ground in competition with the Christian Democrats. A radical grouping is urging a move to the left of the Socialist Party while an extra-parliamentary wing wants to fish more efficiently in the rivers of popular discontent and protest.

While playing the constitutional game, the MSI remains in the system but not of it. In his parting address to a party congress in Sorrento which included Mr Jean Le Pen, the voice of the renaissance extreme right in France, Mr Almirante pointed triumphantly to the other parties' renewed interest in political reform as justification for the MSI's long-standing rejection of the corruption and inefficiency of the present system.

Surprisingly, he also reserved some of his harshest words for Mr Bettino Craxi, the Socialist leader, whom he has eulogised in recent years and whose national image is conditioned by the blackshirt and military boots in which the cartoonist Forattini always dresses him.

Hapag-Lloyd to spend \$1bn in recovery programme

By KEVIN BROWN, TRANSPORT CORRESPONDENT

HAPAG-LLOYD, the West German shipping, aviation and travel group, is to spend DM 1.75bn (\$1.07bn) on ships and aircraft for delivery over the next four years.

The expansion programme marks the final stage of the group's recovery from a financial crisis four years ago when it was effectively taken over by two West German banks.

The core of the expansion programme is the replacement of the fleet of 13 aircraft operated by Hapag-Lloyd Flug, the group's charter airline subsidiary, at a cost of DM 1bn.

Firm orders have been placed with Boeing, the US aircraft maker, for six 737-400 aircraft, capable of carrying 142 passengers, and six 737-500 aircraft, built for 108 passengers.

Hapag-Lloyd has also ordered four A310 aircraft from Airbus

Industrie, the European manufacturer, and taken options on four extra aircraft from Boeing.

Boeing said its share of the order was worth more than \$300m, excluding the options. Both aircraft are new designs based on the Boeing 737-300, and neither is yet in commercial service.

Hapag-Lloyd is also spending DM 500m on two container ships to be built in West Germany for

the North American trades, and a third container ship for the Europe-Australia service to be built at the Hudong yard in Shanghai.

The remaining DM 250bn will be invested in the group's travel agency, and its ports, cruising and freight forwarding activities.

Hapag-Lloyd will phase out some of its fleet of container ships when the new vessels are delivered in 1989, but says it

intends to retain a large container fleet.

Revenue from container shipping is expected to be down by around 15 per cent in DM terms this year, because of the weakness of the US dollar, in which freight rates are expressed.

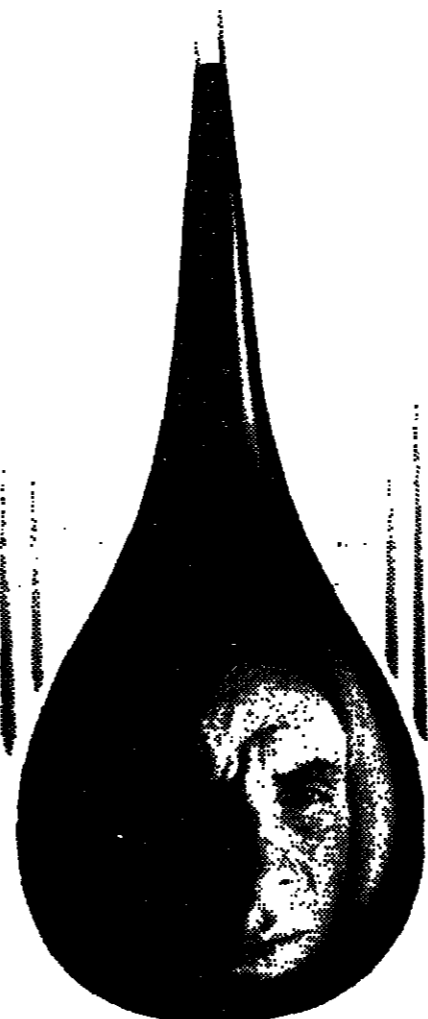
Group revenue is expected to be around DM 3.4bn, the same as last year, and net profits are expected to exceed last year's level of DM 53m.

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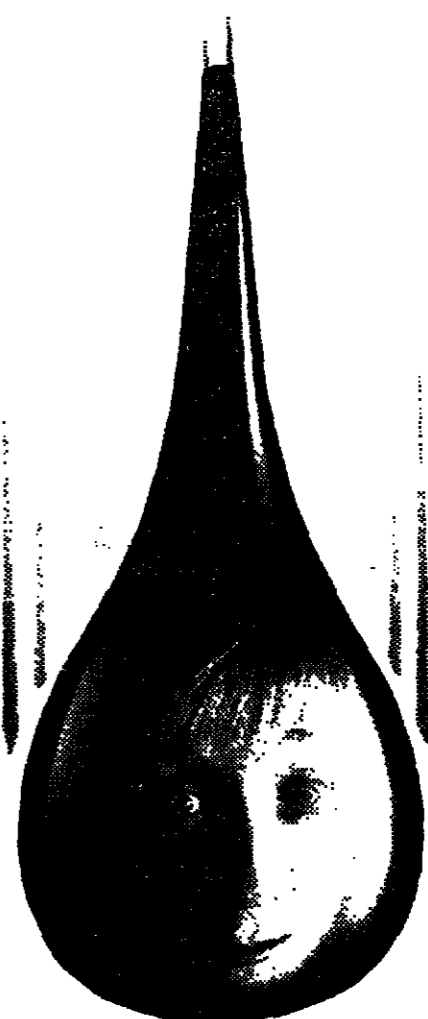
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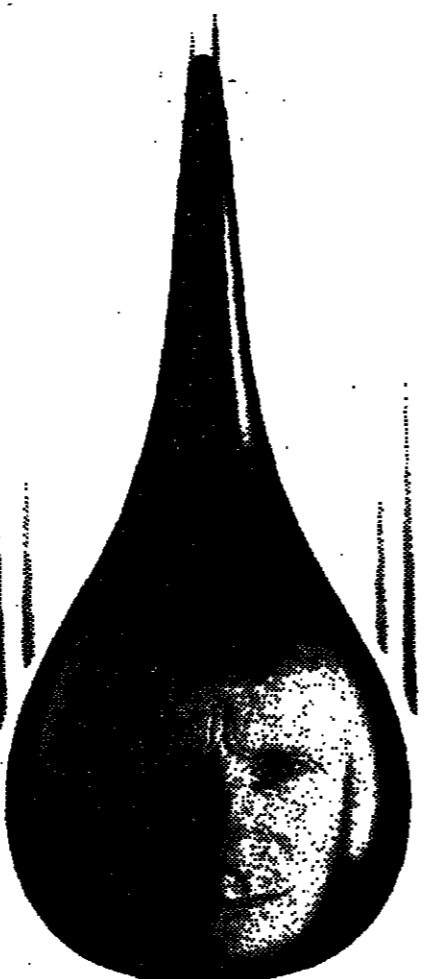
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He sees his responsibilities as either above the line or below the line. On energy costs, he simply draws the line.



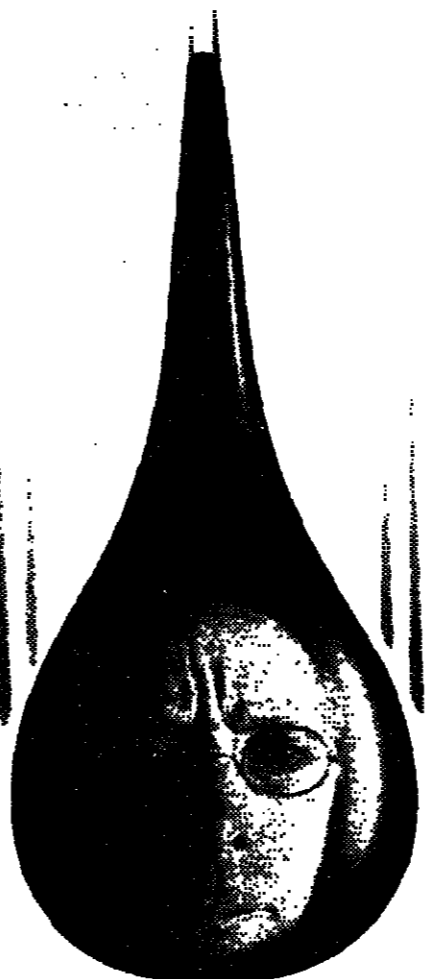
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WORLD ECONOMIC INDICATORS

UNEMPLOYMENT

	Nov '87	Oct '87	Sept '87	Nov '86
USA 000's	7,114.0	7,174.0	7,089.0	8,243.0
%	5.9	6.0	5.9	6.9
W. Germany 000's	2,092.7	2,107.1	2,154.6	2,026.3
%	7.6	7.7	7.9	7.4
France 000's	2,697.2	2,674.0	2,574.9	2,640.4
%	11.5	11.4	11.0	11.4
Italy 000's	3,328.0	3,326.0	3,262.0	3,217.2
%	14.3	14.3	14.0	13.9
Netherlands 000's	653.2	657.1	694.1	696.0
%	12.9	12.9	13.0	13.0
Belgium 000's	510.7	515.6	517.8	540.0
%	12.4	12.5	12.6	13.1
U.K. 000's	2,751.4	2,870.2	2,865.8	3,237.2
%	10.0	10.5	10.4	11.8
Japan 000's	1,620.0	1,660.0	1,640.0	1,610.0
%	2.6	2.7	2.7	2.6

Sources: (except US, UK, Japan) Economist

SHIPPING REPORT

Lull in Gulf business as Opec confers on prices

By KEVIN BROWN, TRANSPORT CORRESPONDENT

THERE was a lull in the Middle East Gulf last week as owners and charterers awaited the outcome of the price-setting meeting of the Organisation of Petroleum Exporting Countries.

Brokers said reports from the Opec meeting tended to indicate that there would be continuing

disarray among the producers, leading to cautious chartering and a probable easing of rates in the short to medium term.

Demand fell substantially in the Gulf during the week, and rates for very large and ultra large crude carriers fell relatively sharply. A VLCC was fixed at Worldscale 42.5 towards the end of the week for a trip to the US Gulf, but brokers said it was doubtful that this level could be maintained.

Elsewhere, brokers said rate levels deteriorated in West Africa, despite an increase in demand, because of a surplus of available tonnage. A 132,000 tonnes cargo was fixed at Worldscale 47.5 for a voyage to France, and 120,000 tonnes for Worldscale 55 to the US Gulf. EA Gibson, the London brokers, said there had been an influx of inquiries towards the end of the week, which it was hoped would end the slide in rates.

Business in the Mediterranean was said to be quiet, and most of the reported fixtures were for cargoes of around 80,000 tonnes for the short trip to Italy.

FINANCIAL TIMES

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OVERSEAS NEWS

Roh gives voters a chance for second thoughts

BY MAGGIE FORD IN SEOUL

ONLY TWO days before South Korea's presidential election Mr Roh Tae Woo, candidate for the ruling party, has offered voters a chance to confirm their choice after the Seoul Olympic Games next year.

If elected, he told a large rally at the weekend, he would hold a vote of confidence on his performance. He outlined a new set of promises to add to those he made in June which led to the election.

These included an end to authoritarianism in government, the reorganisation of intelligence bodies so that they deal only with espionage, an investigation of scandals and corruption under the present government, and an amnesty for prisoners.

Opposition leaders described the proposals as deceptive and irresponsible, suggesting that the Government regarded the election as only a rehearsal.

Fears that Mr Roh's rally, held

on the anniversary of the military coup which brought President Chun Doo Hwan to power, would be violent, proved unfounded, although 10,000 police were deployed. Large groups of company employees, civil servants and bankers attended the rally as expected, many apparently under protest.

The two main opposition candidates, Mr Kim Young Sam and Mr Kim Dae Jung, both attracted large enthusiastic rallies in the final weekend of campaigning. In the absence of opinion polls makes it difficult to judge support and many voters appear uncertain about who might win.

Some evidence of a fall in Mr Roh's backing has been noted, but many voters believe that the two Kims are running neck and neck. Typically in South Korea, a last minute surge in support for one candidate might be expected, possibly even at the very last moment.

Volcker assails lack of US economic leadership

LACK of economic leadership from the US is aggravating the turmoil in world stock and money markets, Mr Paul Volcker, former chairman of the US Federal Reserve Board said yesterday.

He was speaking in a televised conference on the world economy in Tokyo with a group of ex-central bankers and top economists. The panelists all agreed the US budget deficit was the main cause of both the October 19 "Black Monday" stocks crash and the dollar's slide to record lows, but were unimpressed by recent US action to remedy the problem, Reuters reports from Tokyo.

"I think there is a real emphasis on my own country, the US, to act more intelligently and more responsibly than has been the case," said Mr Volcker. Raising revenues by higher taxes, or cutting into social security programmes was the only answer to cutting the deficit substantially, he said, and there was no sign of this.

None of the panelists believed economic disaster was unavoidable, but neither did they think the US would act firmly. Mr Anthony Solomons, ex-head of

the New York Federal Reserve Bank, predicted no real US action on the deficit until after next year's presidential election.

Last week's move by Congress to reduce the deficit was seen as inadequate to calm markets, "I am afraid that the recent package was not credible. I am afraid of another Black Monday," said Mr Thierry de Montbrial of the French Institute for International Relations.

"We must recognise that one of the casualties has been faith in the ability of governments to deal with crises," said Mr Christopher Tugendhat of the Royal Institute of International Affairs in London.

The economists believed that Tokyo must reduce Japan's large trade surpluses, and West Germany must make greater efforts to stimulate home demand. Attempts at co-ordinated action by large industrial nations to halt the dollar slide and win back investor and consumer confidence were otherwise of little use, they said.

Without action, the former central bankers also foresaw little possibility of stabilising exchange rates by intervention or in target zones.

Pakistan call on financial controls

By Mohammed Aftab in Islamabad

THE Pakistan central bank has urged the Government to deregulate its financial institutions and liberalise the economy in order to ensure orderly and speedy growth.

In its annual review of the economy, the State Bank of Pakistan commends the Government's actions in partly deregulating procedures for new investment, and liberalising prices of industrial and farm products. But this process needs to be continued, the report says.

It strongly recommends further deregulation of both money and capital markets, as well as reviewing the rate of return charged on business loans from the nationalised banks.

Under the new system of Islamic banking, the cost of borrowing from nationalised banks has gone up by 2-3 per cent over the past three years to as much as 18 per cent.

The Government and its investment banks are the main source of funds to business. In spite of government efforts to coax investment in new projects with tax breaks, private business remains "the reluctant groom of the Pakistani economy," as one senior economist has said.

The bank endorsed almost all the economic indicators released by the Government at the time of the national budget earlier this summer. But it said the 1986-87 government estimate of 7 per cent growth in gross domestic product may have to be lowered because of some reverses in agriculture.

Iranian and Pakistani officials have agreed on ways to curb illegal traffic across their border, Reuters reports from Nicotia.

Iran's national news agency, IRNA, reported on Sunday that Interior Ministry officials from the two countries agreed on the measures during a three-day visit to Pakistan by an Iranian delegation led by Mr Ali Akbar Velayati, the Foreign Minister.

Roger Matthews and Richard Gourlay report from a nervous summit in Manila Asean gives gunboat diplomacy new twist

A SHOW of naval force rarely seen in Manila Bay since General Douglas MacArthur returned at the end of the Second World War greeted the four heads of government who flew into the Philippines yesterday for the third summit meeting in 20 years of the Association of South-East Asian Nations (Asean).

Ships from Malaysia and Indonesia supplemented those of the Philippine navy in forming a 15-strong defensive arc on the seaward side of the conference centre where, for the next two days, President Corason Aquino and her five guests are scheduled to breathe new economic and political life into the regional grouping.

Fears about security in the wake of half a dozen attempted coups against Mrs Aquino's government in the past 18 months have dominated the preparations. The Philippine President has moved into the conference complex for the duration of the meeting and the brief airport welcoming ceremony for the delegations from Brunei, Singapore, Malaysia and Thailand were conducted by her 16-year-old daughter, Kris, who in less formal moments likes to sing and dances on television.

President Suharto of Indonesia, despite his helicopter-carrying warship lying at anchor in the bay, does not yet appear fully convinced by the arrangements and

is putting off his arrival until just before the conference formally opens today.

One of the least happy spectators to all these precautions may well be the man who, until a few days ago, was thought by many to pose the single greatest threat to the summit - Col "Gringo" Honsman, leader of the nearly successful coup in August and since the weekend incarcerated in a naval landing craft visible from the conference centre.

His much-applauded, if belated capture, has done nothing, however, to halt the state of bombings which continued on Saturday night when a grenade was thrown at the Malaysian embassy. It caused no injuries and little damage and appears to be a continuation of nuisance attacks by domestic opponents of Mrs Aquino who want to disrupt the summit to embarrass her. In the past week, two bombs have exploded, one of them at the international airport, and more than 150 sticks of dynamite have been defused.

Just what the heads of government will talk about is still unclear, although, even before they arrived in Manila, a text of their final communiqué was being freely circulated among the large journalistic contingent. According to that version, the main economic agreements centre predictably on increasing the amount of

intra-Asean trade conducted under preferential trading arrangements.

Equally predictably, there is little fresh on the highly sensitive issue of freer trade in agricultural products, but there is a promise to increase the number of joint industrial ventures. On tourism, the heads of government are likely to conclude that 1992 should be designated "Visit Asean Year."

But whatever the actual or potential seriousness of the situation, the natural good humour and irreverence of the Filipinos remain undimmed. Live television coverage of the arrivals was punctuated by commentators claiming that the best known fact about General Fren, the Thai Prime Minister, was that he was a bachelor, provoking a lively but inconclusive discussion on the relative beauty of ladies from the Philippines and Thailand.

Mr Lee Kuan Yew of Singapore was reported to be best known as a "student activist," while it was speculated that Dr Mahathir of Malaysia and his wife got on so well because they were both qualified doctors. However, there was less certainty about whether Malaysia had once been a British colony.

A similarly relaxed atmosphere pervaded the conference complex, shattered only by enthusiastically explosive 21-gun salutes that literally shook the buildings,

themselves a tribute to the affection which former President Marcos and his wife had for the concrete-brutalist school of architecture.

As the heads of government arrived, smiling women tended the flower beds between the parked helicopters, fire trucks and mobile resuscitation units wishing "Happy Christmas" to striders who, according to security regulations, should not have strayed from their designated building.

Only at the Philippine News Agency is there a sense of impending doom. There, an unhappy night editor is waiting to discover his fate having transmitted a paragraph which read: "Foreign Affairs Secretary Raul Manglapus yesterday said here on December 14-16 signals an optimistic move that the Asean summit is a real political organ in the region."

The failure to spot that the word should have been "organisation" had, according to the executive editor, changed the entire meaning of the story. The night editor has 48 hours to explain in writing why disciplinary action should not be taken against him, by which time he must hope, along with many others, that the third Asean summit is already part of history.

Iran 'using new weapon' to set tankers on fire

IRAN is using a new weapon or a new kind of incendiary projectile from weapons already in use, to set tankers on fire in the Gulf, regional shipping sources said yesterday, Reuters reports from Dubai.

"Whatever hit the Norman Atlantic and the Pivot caused devastating fires," said a shipping agent. "We suspect a new projectile, some kind of incendiary with phosphorus peroxide."

In the past, projectiles fired by the Iranians caused only small holes in the ships and small fires which the crew on board could extinguish, usually with no help from firefighting tugs," he said.

Iran's decision to upgrade its anti-ship weapons could be a reaction to the presence of western navies in the Gulf, a move criticised by Tehran.

Attacks have already increased since the Americans and West Europeans arrived in force last summer and it now appears the Iranians plan to increase the amount of damage caused to ships.

A huge blaze on the 232,164-ton Cypriot supertanker Pivot, following an Iranian attack on Saturday, forced most of the 44-member crew to abandon ship.

It took four fire-fighting tugs several hours to contain the blaze, the smoke from which could be seen 30 miles away in Dubai.

The attack on the Pivot, a retaliatory raid for Iraqi attacks on Iranian tankers, followed the sinking of the Norman Atlantic, a 86,139 ton Singapore-registered naphtha carrier on Thursday at the entrance of the Strait of Hormuz.

The ship sank after burning for four days following an attack by Iranian gunboats as it left the Gulf for Japan with a load of Kuwaiti naphtha.

The flames were so intense, reaching temperatures of 3,000 deg C and visible at night from 50 miles away, that fire-fighting tugs were forced to leave it to sink.

A total 155 vessels have been attacked in the Gulf this year, more than a third of the 420 hit since 1981.

Jordan's King Hussein arrived in Qatar yesterday to discuss with gulf states the Arab-Israeli conflict and the Iraq-Iran war before his planned visit to London and Moscow, AP reports from Qatar.

Hussein was in Kuwait on Saturday and stayed overnight in Bahrain for talks with leaders.

Soviet Union conducts nuclear test

THE Soviet Union yesterday set off a nuclear explosion, at least the 20th test blast this year but the first since last week's signing of a superpower disarmament accord, AP reports from Moscow.

The official Tass news agency said the nuclear test had a yield of between 20 and 150 kilotons and was carried out at the test range in Semipalatinsk at 6.30 am Moscow time. It was "conducted with a view to upgrading military equipment."

No other information about the test was disclosed.

At least 20 explosions have been reported since the Soviet Union ended a 19-month nuclear testing moratorium in February.

The US and Soviet Union have negotiated in Geneva on an end to nuclear testing, but so far have not come to agreement.

The US had scheduled a test of the Trident 2 missile on Thursday, but postponed it by a day so that it would not occur during the Washington summit.

Former S Yemen head predicts trial backlash

MR Ali Nasser Mohammed, former president of South Yemen, warned yesterday of a violent backlash after he and 34 of his ministers and senior officers were sentenced to death in a court in Aden, the capital of South Yemen, Reuters reports from Sanaa, North Yemen.

The trial lasted a year and ended on Saturday night. "We are sure the reaction of our friends (in South Yemen) will be violent," said Mr Nasser Mohammed in Sanaa, the capital of North Yemen. However, he said he did not want war to engulf the two states.

The two Yemens have held periodic talks on terms for a possible merger, but Mr Nasser

Mohammed said Aden had now turned its back on unity.

He also accused Gulf Arab states, and Saudi Arabia in particular, of backing Aden. "There are countries who do not want unity - Saudi Arabia and others."

He believed North Yemen's President Ali Abdullah Saleh would ask the Soviet Union to persuade South Yemen to reconsider the verdicts, but was pessimistic over prospects for success.

Mr Abdul-Karim al-Iryani, North Yemen's Foreign Affairs Minister and Deputy Prime Minister, described the court's decision as a political setback but he did not think it would raise military tension.

UK to speed drought aid to India

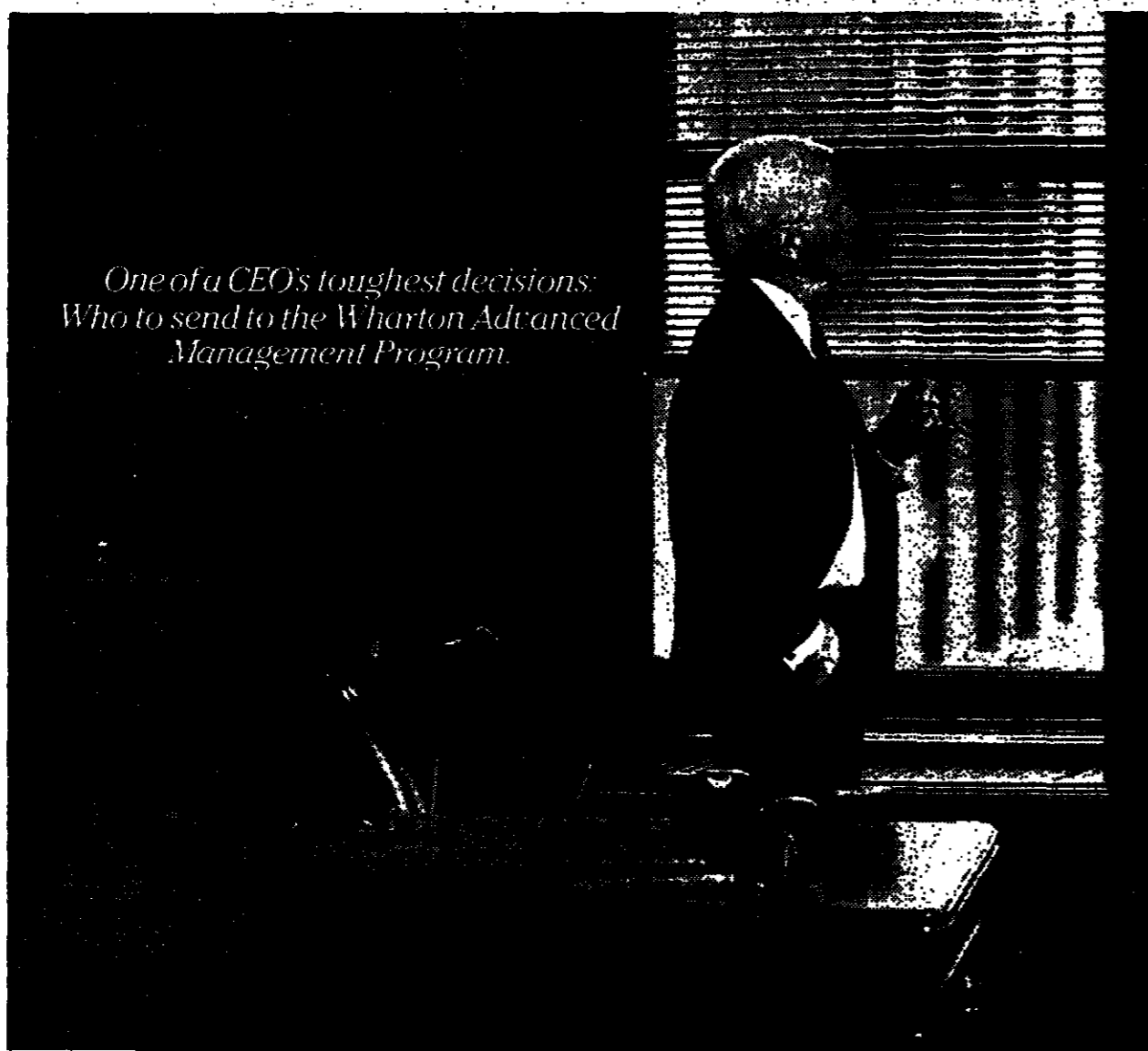
BRITAIN is to speed up a multi-million dollar aid program to help India through one of its worst droughts this century, Mr Christopher Patten, British Overseas Development Minister, said yesterday, Reuters reports from New Delhi.

Speaking at the end of a 10-day visit during which he announced British aid worth \$46m (\$64m) Mr Patten said he had agreed to make payments

before work began on social projects instead of after completion.

He also announced a \$3m grant towards water drilling in drought-affected areas and said Britain was studying other ways of helping India deal with water shortages.

Britain is the largest bilateral donor to India, having given bilateral and multilateral grants worth \$560m in the past five years.



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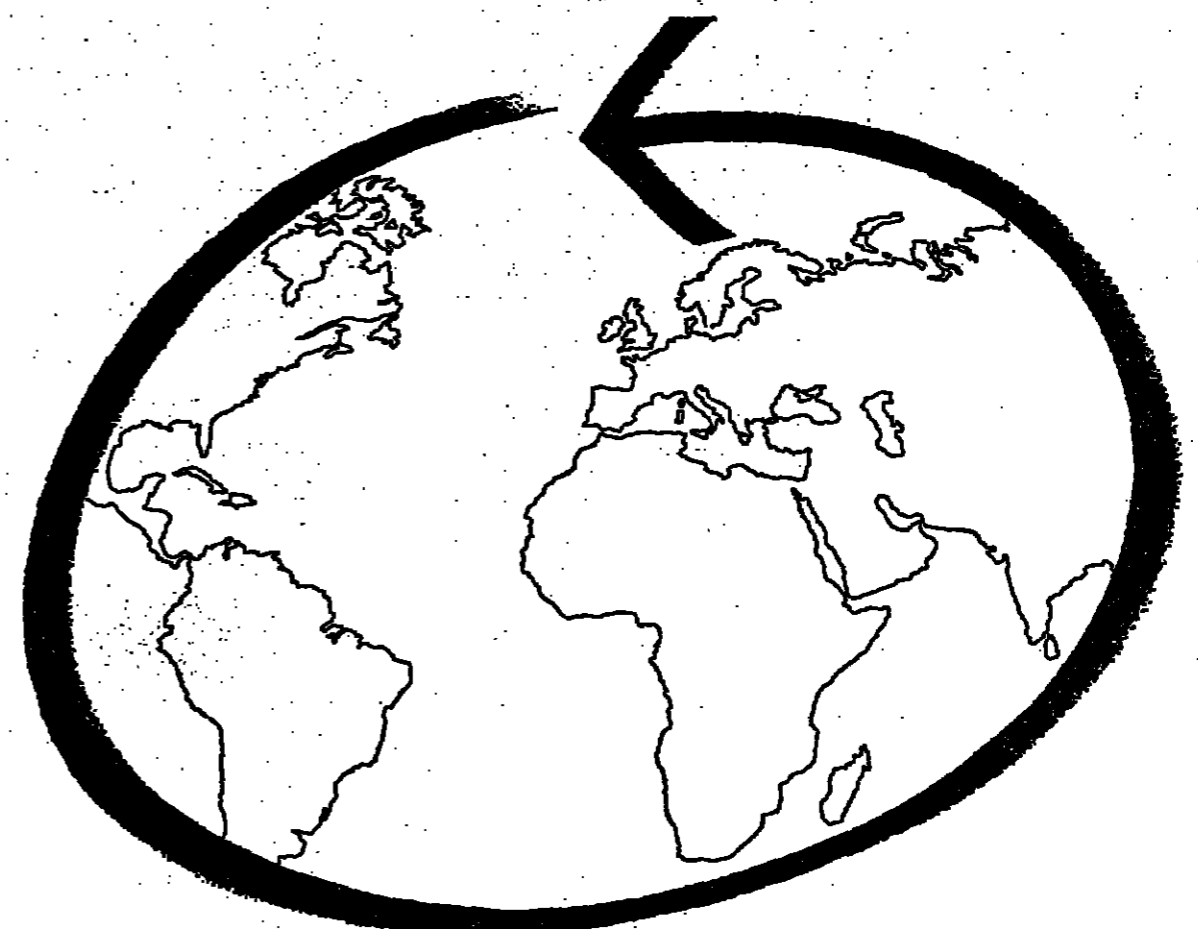
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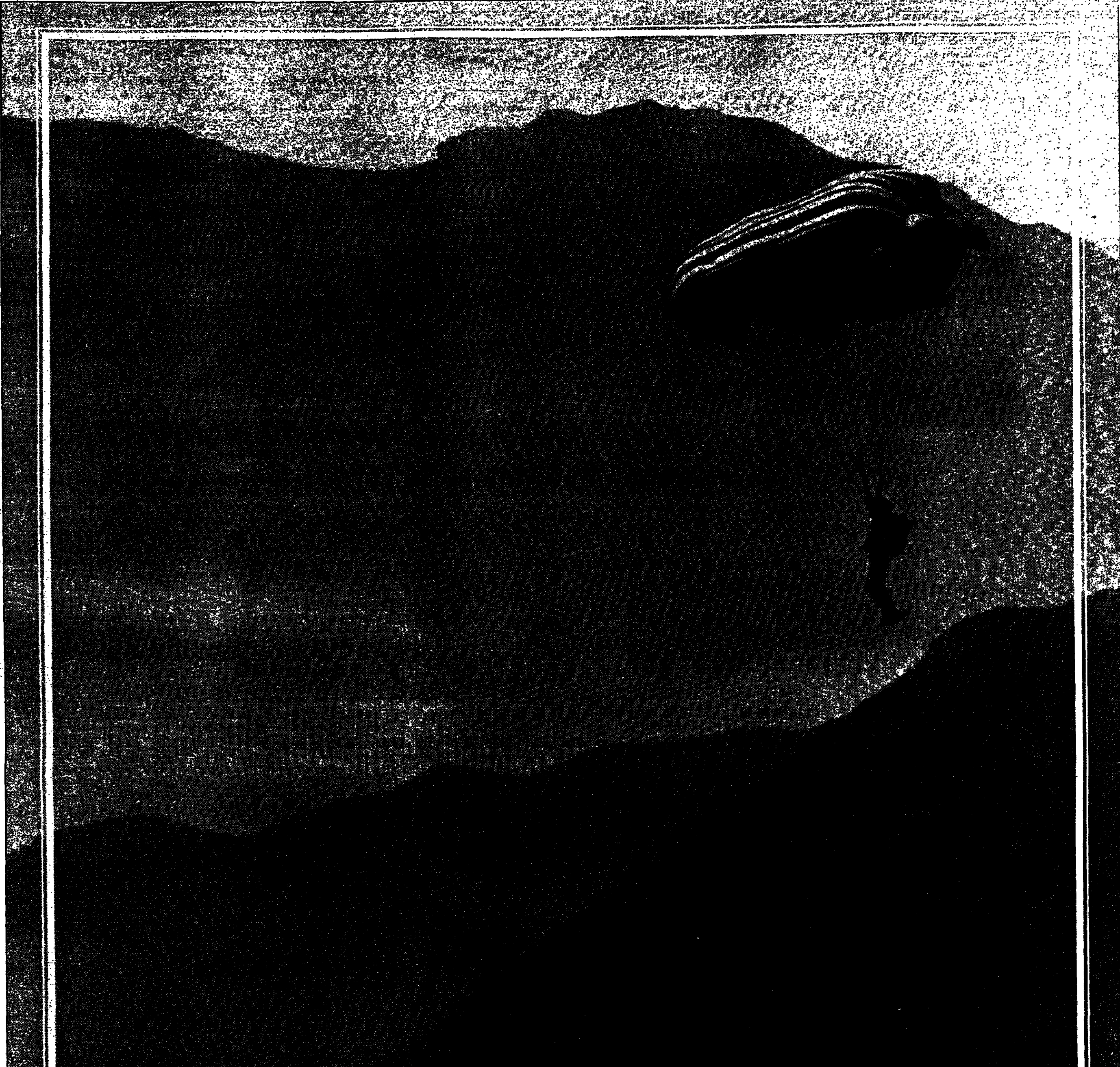


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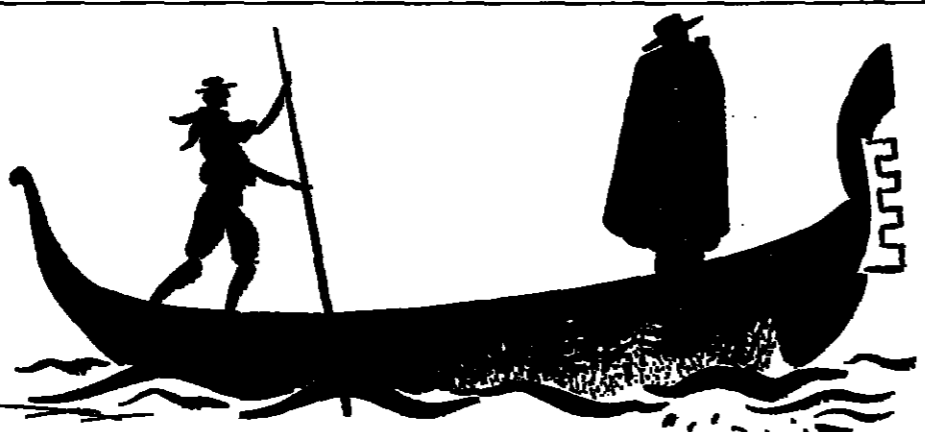
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Minister counters hospital criticisms

By Peter Hiddle, Political Editor

THE GOVERNMENT has launched a counter-attack over the level of efficiency in hospitals in the face of recent criticism from leading members of the medical profession and the opposition parties that the National Health Service now faces a serious crisis.

This offensive against an almost daily barrage of criticism will be followed by a Commons announcement this week on the detailed allocation of the proposed £700m extra next year for the hospital and community health service.

No additional money is planned in the short-term, but there could be some limited provision from the contingency reserve for specific projects and for the restructuring of nurses' pay.

The main emphasis will be on further improvements in efficiency and on increased co-operation with the private sector. Senior ministers have agreed that any fundamental changes in the financing of the NHS will have to wait until the early 1990s with proposals in the party's election manifesto.

Mr Tony Newton, the Health Minister, yesterday denied there was a crisis in the NHS. Interviewed on BBC television, he said criticisms of the acute hospital sector, such as in last week's unprecedented statement from the presidents of the Royal Colleges of Surgeons, Physicians and Obstetricians, did not do full justice to the NHS as a whole.

He said it was not enough for doctors to draw attention to the problems without recognising the important contribution they could make themselves to tackling the difficulties.

His comments followed stronger criticism of doctors in the Sunday newspapers which were said to reflect the view of Mrs Margaret Thatcher, the Prime Minister, that doctors were partly responsible for inefficiency as a result of restrictive practices.

Mr Newton stressed the need to look at all possible ways of enhancing the total spent on health. The priority was, he said, to use all resources to the full.

Industry emerges from crash in healthy position

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

BRITAIN'S manufacturing industry appears confident that it will escape almost unscathed from the stock markets' crash and is reporting a further strong improvement in its output and order books.

The latest monthly industrial trends survey from the Confederation of British Industry does, however, suggest that sterling's recent strength against other major currencies may now be dampening demand for exports.

The organisation's optimism on the short-term outlook is also reflected in new forecasts published today by two leading City of London securities houses. Economists at James Capel believe that despite a significant slowdown relative to its performance in 1987, Britain's economy will remain the fastest-growing of the major European countries in 1988.

Mr Gavyn Davies at US securities house Goldman Sachs says that the Government will probably have to spend in cutting both the basic and the top rates of tax in the March budget. At least for the next few months the outlook for output and inflation remain good, although later in 1988 Britain's trade balance

may deteriorate "alarmingly". Companies' responses to the CBI survey, the second since stock markets around the world began their steep decline in mid-October, are likely to bolster the Government's confidence that output will grow by around 2.5 per cent next year.

About one-third of the 1,366 companies canvassed by the CBI said that their order books were above normal. A further 51 per cent said they were about normal and only 15 per cent said orders were below expectations.

A similar confidence was reflected in forecasts of the level of manufacturing output. Some 40 per cent of companies expect their production to rise further over the next four months, while only 9 per cent anticipate a decline.

Financial markets will be watching closely to see whether this optimism is matched by evidence from a range of official statistics due for publication this week. In particular, figures for retail sales and for unemployment in November will be scrutinised for any sign of a slowing in the pace of economic growth. The Department of Trade and

Industry's survey of investment intentions, due on Thursday, should also provide some indication of whether companies have scaled back their expansion plans in response to the stock markets' crash.

Although the evidence from the CBI is encouraging, there is still official concern that businessmen could react to the uncertainties caused by the turbulence in financial markets by delaying or reducing investment expenditure.

Uncertainties about the prospects for exports are likely to be intensified by signs in the CBI survey of a falling off in export orders over the past month in the wake of sterling's sharp rise against the falling dollar.

Mr David Wigglesworth, the chairman of the CBI's economic situation committee, said that the downward shift underlined the importance of further cuts in interest rates to restore industry's competitiveness.

The responses to the survey also point to increased upward pressure on prices, with the proportion of companies planning to increase their prices the highest seen since the start of this year.

More funds for Underground

BY KEVIN BROWN, TRANSPORT CORRESPONDENT

CAPITAL investment in the London Underground system is to rise to more than £500m next year, an increase of about 50 per cent on the current year.

London Regional Transport, which runs the capital's underground and bus services, plans to spend a total of £365m in 1988/89, compared with £240m in the current year.

Capital investment on the Underground will increase from about £200m to more than £300m, including spending on the extension of the Docklands Light Railway from Tower Gateway to Bank.

Previous approval for LRT's proposals is understood to have been given before the fire at King's Cross Underground station three weeks ago, which killed 31 people.

The detailed figures remain confidential but are expected to be announced shortly, together

with the proportion to be provided by Government grant.

The proposals mark the fifth year of increased capital spending on the Underground since 1983, the last full year before LRT was nationalised by being removed from the control of the Greater London Council.

Underground investment will have increased by more than 100 per cent in real terms by the end of next year, from a base of £123m in 1983 (at 1986/87 prices).

The increased spending has been financed largely by an increase in revenues from fares, which has helped to transform the financial performance of the Underground from a loss of £23m in 1982 to a surplus of £70m last year.

Government grants for capital spending fell from £165m to £100m over the same period, but

are expected to rise to £113m this year.

Most of the money is being spent on renewing the infrastructure of the Underground, including a station improvement programme which has been criticised by conservationists.

The Underground has just taken delivery of the first of 16 new trains, which will add 3 per cent to capacity, and work has begun on an extension of the Docklands system.

The system remains under extreme pressure, however, because of an increase in passenger numbers of more than 50 per cent in the past three years.

In the longer term, plans have been approved for a £500m renewal of the Central Line from 1992 onwards, and proposals are being drawn up for a revamp of the Northern Line at much the same cost.

Government to press for water regulatory body

BY RICHARD EVANS

THE GOVERNMENT is to insist that a powerful new body, the National Rivers Authority, should take over all regulatory functions of the water industry on privatisation despite widespread misgivings within the industry.

A decision on a new structure for the industry, which is due to be privatised in stages from late 1989, is expected to be announced this week.

The key element in the statement will be whether the physical functions - such as river management - for which the NRA will be responsible should be done by the authority itself, by the privatised water authorities under contract, or contracted out to private industry.

The indications are that ministers are prepared to accept the desirability of contracting back some of the functions to the authorities to allay some of the fears of industry's leaders that there is a danger of over-regulation.

Many of the chairmen of the

10 water authorities in England and Wales, have argued that an NRA structured to take over all the regulatory and river management powers of the authorities would damage efficiency and the industry's prospects of selling its expertise abroad.

However, ministers believe that a strong public sector regulatory power is inevitable to avoid one private sector body regulating other private sector interests.

Functions that are certain to be transferred to the NRA include water resources regulation and planning, environmental quality and pollution control, land drainage and flood protection, fisheries, navigation, and conservation and recreation.

The Government's timetable is to introduce the main privatisation bill at the beginning of the next parliamentary session in the autumn. This should reach the statute book by July 1989 to enable the first authority to be floated off by the end of that year.

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CEGB to import supplies at half domestic price

By Gerard McCloskey and Miri Zlatnar

THE CENTRAL Electricity Generating Board has contracted to import 3.6m tonnes of coal over the next three years at about \$35 (\$19.1) a tonne - roughly half the average price it pays for supplies from British Coal.

Three big contracts will account for most of the board's overseas supplies up to 1991. The new suppliers are Shell Coal International (supplying Australian coal), Caribool (Colombian coal) and BSM, the Dutch trading house which will provide coal from the new Chinese An Tai Bao mine.

Each supplier will ship up to 400,000 tonnes in each of the next three financial years. A further 200,000 tonnes will be bought on the spot market. The tonnages will replace imports from Austen and Butta's invincible mine in New South Wales, which has shipped 750,000 tonnes a year to the CEGB since the mid-1970s.

The new delivered prices will range from \$34 a tonne for the Colombian and Chinese coals to about \$36.50 for the Australian. The Australian coal was originally to have been supplied by Invincible but Austen and Butta suddenly decided to close the mine.

While the CEGB is familiar with Caribool's El Cerrejon coal and has burnt coal similar in quality to the Shell blend, the An Tai Bao coal is of untested quality.

It is being produced by a joint venture between Occidental Petroleum and the Chinese authorities and its success is crucial to plans for Chinese coal exports over the next few years.

Although the CEGB has been able to negotiate very low prices, closure of the invincible mine shows current world prices are putting strong pressure on sup-

pliers. Six Australian mines - three were Austen and Butta's - have closed this year as rising costs outstripped static prices.

A substantial cut is also to be made at the South African Ermelo mine. Although South Africa has this year suffered because of coal export sanctions which are expected to reduce shipments by 7m tonnes to 38m tonnes, the Ermelo cut is the first loss of tonnage because of rising costs.

BF Coal, a joint-venture partner in Ermelo with Total and Trans Natal, has pulled out. Until very recently, closing capacity in the very low-cost South African industry would have been unthinkable. But rising wage rates, continuing inflation and a big rise in rail freight charges to the exporting terminal at Richards Bay are proving too much for the Republic's high-cost producers.

Alliance to keep open its policy on defence

By Peter Riddell, Political Editor

THE PREAMBLE to the constitution of the new merged Alliance party of Liberals and Social Democrats will include support for collective security through Nato, while leaving the specific approach to nuclear defence to a separate policy declaration from the two party leaders.

The constitution and policy preamble are to be published tomorrow after a final meeting of the joint negotiators. Mr David Steel, the Liberal leader, and Mr Robert MacLennan, of the SDP, are due to finish drafting the separate policy declaration in the week before Christmas.

Detailed proposals will be sent to members of both parties ahead of their respective conferences towards the end of next month and membership ballots will be held in February.

An argument is possible at this afternoon's meeting of the SDP's ruling national committee over the proposal that a "shell" SDP should continue until the next election under the umbrella of the new merged party.

That suggestion is opposed by supporters of Dr David Owen, the former party leader, who now operates under the banner of the Campaign for Social Democracy and who want to keep a separate SDP going after the merger. They see the idea of a "shell" SDP as an attempt to frustrate their plan, although there is no monopoly in the use of party names.

The leader of the new Alliance party will not be known until October or November because a computerised membership list of the new party will not be available until July and no ballot will be held until after the autumn conferences.

Maggie Urry and Alice Rawsthorn on how retailers are faring

Slow start for Christmas spree

"CHRISTMAS WON'T be Christmas without any presents," whinged one of Louise M. Alcott's Little Women. That appears to be a sentiment shared by the great British consumer. Christmas should be a record year again.

Although some retailers are confessing to less-than-sparkling sales in the run-up to Christmas and arguing that the stock market crash has dented consumer confidence, it is generally more a matter of sales below optimistic targets than a reduction on last year's business.

The fact that Christmas Day falls on a Friday this year is being offered by many as a reason to expect a late surge. Shoppers are supposed to feel that they have more time left in spite of the inexorable countdown of shopping days to Christmas. Retailers would prefer shoppers to start Christmas buying earlier to spread out the hectic trading. A slow start to the season of goodwill seems to have been picking up. Mr Robert Austin, Debenhams' marketing director,

said that in early November business was light, but since the middle of that month trade had picked up well. A 12-hour sale last Thursday produced sales two-and-a-half times higher than those on the same day last year.

Sales of big-ticket items, such as electrical goods, are below retailers' expectations, say chains such as Rumbelows, Comet and Dixons, but cheaper items are selling well.

Boots, which offers a huge range of goods through its 1,000 branches, agrees that while high-cost items are the slower sellers, higher-margin goods such as cosmetics and perfumes are doing much better.

Meanwhile, at Sock Shop and The Rack, sales - where comparisons with last year are possible - are showing percentage gains well into double figures. As well as benefiting from more traditional retailers' discomfiture, the old image of socks and ties as "it's the thought that counts" presents for difficult uncles has changed. They are now regarded

as cheerful, fun offerings. Jewellery group Ratners, which is also seeing sales well ahead, again where comparisons are possible, reports strong demand for watches. They, too, have become cheap, fashion accessories rather than boring and functional items.

On the other hand, Marks & Spencer reports that "sales are slightly slow in every department. Nevertheless, it too should show an increase on last year."

Other clothing retailers seem to have fared better, with Next store sales on target and its mail-order business, Grattan, which has already had its Christmas peak, well ahead on last year.

Laurie Ashley, the fashion and furnishings group, also says sales are at expected levels. "We will not have a bonanza Christmas this year," said Mr Peter Phillips, finance director. "But sales are well ahead of last year and up to our expectations."

The Christmas sales pattern is one that has been seen before.

Berkshire marina and homes plan

By William Cochrane

REED INTERNATIONAL, the publishing and paper group, has put forward a consultative document that might lead to the building of 750 houses and a marina on the river Kennet in Berkshire, close to one of the richest commercial stretches of the M4 motorway.

The proposal, which involves high infrastructure costs and a national development value of between \$20m and \$30m, coincides with the imminent publication of the revised Berkshire Structure Plan, a guide to planners and developers.

It is expected to call for a significant allocation of new residential accommodation in the location of Reed's chosen site, by East Thatcham, east of Newbury.

Reed also proposes to tackle traffic and environmental problems in the area, after two years' work by chartered surveyor Debenham Tewson & Chinnocks and a comprehensive traffic study by its consulting engineering firm, Peter Brett Associates, of Reading.

The group has 180 acres of land surplus to requirements and aims to improve the local highway network, meet housing needs and provide new bridges and a marina.

Mr Paul Sheehy, a senior development surveyor at Debenham Tewson & Chinnocks, said the marina would revitalise the historic Colthrop village centre with a new canal basin and mooring facilities, shops, a cafe and a pub.

Value of textile imports from Far East rises 12%

By Alice Rawsthorn

IMPORTS OF textiles and clothing from the Far East into Britain have risen sharply this year, fuelled by the decline of the dollar, to which many Far Eastern currencies are linked.

The quarterly report from the British Textile Confederation, published today, says the value of textile and clothing imports rose by 12 per cent to \$4.7bn in the first three quarters.

Almost all the increase comes from the Far East, which has benefited from comparatively low labour costs and from the weakness of dollar-related currencies. British companies confronted increased competition from Hong Kong and South Korea, as well as from emerging sources such as Indonesia.

By contrast imports from EC countries were static.

The influx of imports accelerated as the year progressed, and as the dollar declined. In the third quarter, the rate of increase in imports of textiles

had risen to 10 per cent and of clothing to 20 per cent.

The impact of this increase on the domestic textile industry has been cushioned by an accompanying rise in exports.

A constant increase in exports of textiles and clothing to Europe contributed to an overall rise of 11 per cent to \$2.5bn in the first nine months of the year. In the third quarter, exports of textiles increased by 10 per cent and of clothing by 13 per cent.

Nevertheless the surge in imports meant the balance of trade deficit widened to \$2.2bn between January and September. So far there is no sign that the imports increase has destabilised activity in the British textile industry. Output dipped slightly in the second and rose in the third.

Trends in Textile and Clothing Trade, British Textile Confederation, 28 Buckingham Gate, London SW1E 6LB. (£25 to non-members.)

Fears grow for City jobs

THE STOCK MARKET crash might cost 50,000 City jobs, Mr Stephen Lewis, economic research director with stockbroker Phillips and Drew, said yesterday.

He told Channel 4's The Business Programme that he expected the final jobs loss toll to be five times higher than current press estimates of 10,000.

The figure of 10,000 for prospective City job losses was based on a rather crude estimate assuming 3 per cent of the total

numbers employed lose their jobs," he said.

"I think that's rather a low estimate and I think the figure is going to be higher - 50,000 would not be a surprise."

Mr Lewis predicted that one result of the crash would be increasing dominance by Japanese securities houses. Their attitude was to stick with long-term plans and they were unlikely to be deflected from their objectives by what had happened in the markets, he said.

Laundries find NHS tendering 'a failure'

By David Brindle

COMPETITIVE TENDERING in the National Health Service has been a failure for laundry contractors, according to the industry's main employers' group.

The Association of British Laundry, Cleaning and Rental Services, has said unless the Government changes the competition regime, "very shortly private contractors are likely to cease tendering for any NHS contracts."

However, the Government's latest guidance to health authorities makes only limited changes. The guidance, issued for the re-tendering for three-year contracts awarded since the regime was introduced, is unlikely to appease dissatisfied contractors.

Mr Len Peach, chief executive

of the NHS management board, has said that "in general" he rejects the association's criticisms.

The association has made its comments in a letter to the Commons Public Accounts Committee, published with a transcript of the committee's proceedings when Mr Peach was questioned.

Although all health authorities have been required to invite tenders for hospital laundry, cleaning and catering services, the letter says contractors' market share is "little changed from the estimated 10-11 per cent share before the onset of competitive tendering in 1983."

Denying that contractors are "bad losers," the letter goes on:

"We are discouraged from competing for NHS contracts not because we have failed to win a significant number of contracts in the past five years, but because of the reasons for this failure - serious inequalities inherent in the tendering process which operate against external tenders."

The association demands: a compensatory mechanism for NHS capital accounting procedures; clearer guidance on the permitted stringency of contract conditions; the opportunity to tender for full linen management (linen hire) for all contracts; full disclosure of health authorities' tender evaluation criteria; and an appeals mechanism against contract awards.

The latest guidance provides for relative additional - not existing - capital costs of tenders to be equalised and draws attention to the linen hire option.

The NHS tendering programme is said to have produced savings of £103m a year, mostly in cleaning, with 15 per cent (207) of all contracts won by the private sector.

Of the 207 contracts, 19 have been terminated prematurely. Mr Peach told the committee eight of the terminations were because of poor quality of work.

Committee of Public Accounts Minutes of Evidence, Wednesday November 4, 1987. HMSO. £5.40.



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UK NEWS

Superconductor research centre to be chosen

BY JANE RIPPETEAU

THE SITE of the UK's first university research centre is expected to be chosen on Wednesday by the Science and Engineering Research Council.

The centre is intended to centralise work among several universities, specifically in the area of warm-temperature superconductivity.

Three applicants out of seven have been shortlisted. They are Cambridge University; a consortium led by Liverpool; and a joint application from Birmingham and Warwick.

The Government expects the centre, the first of two for superconductor research, to help keep the UK at the forefront of world research in the new technology involving electricity transmission without resistance.

Once technical hurdles are cleared, the superconductors are expected to have multi-million-pound applications which will include cheap power generation, medical scanners and more efficient computers.

Some members of the academic community feel the £4m-£5m proposed spending will not be enough to keep Britain competitive.

The US Government has said it is in the process of awarding \$55m in superconductor research funds, on top of what private industry is itself spending.

Some scientists also complain that, by focusing the money tightly on the centre, significant research programmes dispersed around the UK will be deprived.

There is no certainty that specialists at universities not selected for the centre will move to the selected locations.

For instance, at Birmingham, Dr Christopher Muirhead and Dr Colin Gough, the two programme chiefs, have both indicated that they would be unlikely to move even if their university's application were to fail.

Superconductors are materials that transmit electrical current without loss of energy. Those in use today function only when chilled to absolute zero (0 deg Kelvin or minus 273 deg Celsius).

In the last year, compounds have been found that become superconducting at about 93 deg Kelvin (minus 180 Celsius) - a level of chilling that is much easier and cheaper to reach.

In spite of their promise, the new materials cannot yet be used in commercial applications. They are too brittle, unstable and difficult to fabricate into usable forms such as wires or thin films. Researchers believe, however, that overcoming such obstacles is largely a matter of time.

Nick Bunker on US property/casualty insurer St Paul's bid for London insurance broker Minet

Midwesterners find their window on the world

THE RECEPTIONIST at the London headquarters of Minet Holdings was in no doubt last Thursday evening about the future of her company, the world's eighth largest insurance broker.

"It's official," she was telling callers. "We're now owned by the Americans."

She was a touch premature. The success of last week's agreed bid for Minet by the Minnesota-based St Paul Companies, a large property/casualty insurer, is far from being a foregone conclusion.

Manhattan-based Corroon & Black, an insurance broker with a 29.9 per cent stake in Minet, has not yet made its intentions clear about the bid, which values Minet at \$400m.

But the receptionist was right to sound dramatic. A bid for a big-league London insurance broker by a large property/casualty insurer company is a radical departure for the industry, and for Lloyd's of London, where Minet is a big player.

The rationale perhaps looks simpler for Minet than for the Midwesterners. Mr Ray Pettit, Minet's chairman, says the deal will give the group "the tremendous financial underpinning" of support from a US insurer with more than \$2.6bn (\$1.4bn) of premiums in 1986.

Does Minet really need it? The company is best known for its global leadership in broking professional indemnity insurance for big law and accountancy firms.

But Dr Peter Virgin of Morgan Grenfell Securities says: "Never



Ray Pettit, Minet chairman. "Financial underpinning"

has the future of the UK insurance broking industry been as uncertain as it is now." He believes that in three years most Lloyd's brokers like Minet will be owned by insurance underwriting interests. Other analysts simply foresee more mergers between brokers, like this summer's marriage between Willis Faber and Stewart Wrightson.

The difficulties faced by the big Lloyd's brokers are showing up clearly in their figures. For instance, Minet's turnover rose 5 per cent to \$58.4m in the first half of 1987. But its expenses grew 18.4 per cent and pre-tax

profits crept up only marginally to \$19.32m.

One key point for brokers such as Sedgwick, Willis Faber and Minet is that much of their income is US dollar denominated. The dollar's slide is slicing back their income when premium rates are entering a cyclical downturn across much of their business, especially in the US, and for marine and aviation business.

Demand for shipping and oil and energy insurance - another Sedgwick and Minet speciality - is flat. The growing complexity of handling insurance risks worldwide is increasing the brokers' costs. The industry is now turning capital-intensive, as corporate clients demand higher standards of service. Mr Pettit cites the need to spend more on electronic data processing as one reason why he welcomes St Paul's backing.

It is harder to work out why St Paul wants to buy Minet. Mr Robert Haugh, St Paul's chairman, denied that the bid was aimed at thwarting any takeover ambitions harboured by Allegiant, a New York steel and insurance group which holds 8.4 per cent of St Paul and wants to go to at least 15.1 per cent, apparently against St Paul's wishes.

Mr Haugh said Minet, with its management left in place, would be St Paul's "window on the world". There are good reasons why it might need this. About 28.3 per cent of its premiums last year came from medical malpractice insurance, often

a particularly unprofitable line of business. St Paul has shared in the US property/casualty insurance industry's recent powerful profits recovery, but its exposure to lines such as medical malpractice has tended to leave it underperforming its peer companies.

In 1986 its combined ratio, measuring claims and expenses as a percentage of premiums, was 120.5 against a sector average of 112.7. Last year, it was 110.5 against an average of 106.8.

Not surprisingly, St Paul plans to diversify into a broader-based insurance operation, with underwriting, broking and investment banking interests. "This business mix should provide some protection against the cyclical nature of the underwriting market," St Paul says.

It now owns John Nuveen, an investment bank, Sweet & Crawford, an insurance broker, and RFC, a US reinsurance intermediary. It first took a stake in Minet in 1981, and went to its present 26 per cent shareholding in 1983. One reason why St Paul's wants to buy brokers is that it is a so-called stock agency company, shareholder-owned and distributing its products in America via about 5,550 independent agents. A recent Coopers & Lybrand survey showed that efficiency of product distribution was the biggest single worry of stock-agency insurance company chief executives.

The aim of building up a network of brokers based around Sweet & Crawford was to create

LARGEST LLOYD'S INSURANCE BROKING GROUPS 1986 turnover	
Company name	1986 turnover
Sedgwick Group	£240.4m
Willis Faber	£159.7m
C.T. Bowring	£164.3m
Minet Holdings	£121.9m
Jardine Insurance Brokers	£109.9m
Alexander Rowden Group	£101.4m
C.E. Heath	£99.1m
Stewart Wrightson*	£95.1m

Source: Business Insurance magazine. *Mr Wrightson has now merged with Willis Faber.

"a one-stop market for the retail agent for standard products, customised coverages or responses to unique needs," according to St Paul's 1986 annual report. Sweet is an excess and surplus lines broker, which specialises in finding a home for unusual risks such as directors & officers liability insurance, which independent agents cannot handle themselves.

Mr Haugh was keen on Thursday night to dispel the idea that St Paul was pioneering "vertical integration" between insurers and brokers. Less Angeles-based Sweet places only 15 per cent of its business with St Paul group companies, he said. But Minet, with its presence in the London insurance market, would provide an additional facility available to our retail distribution system.

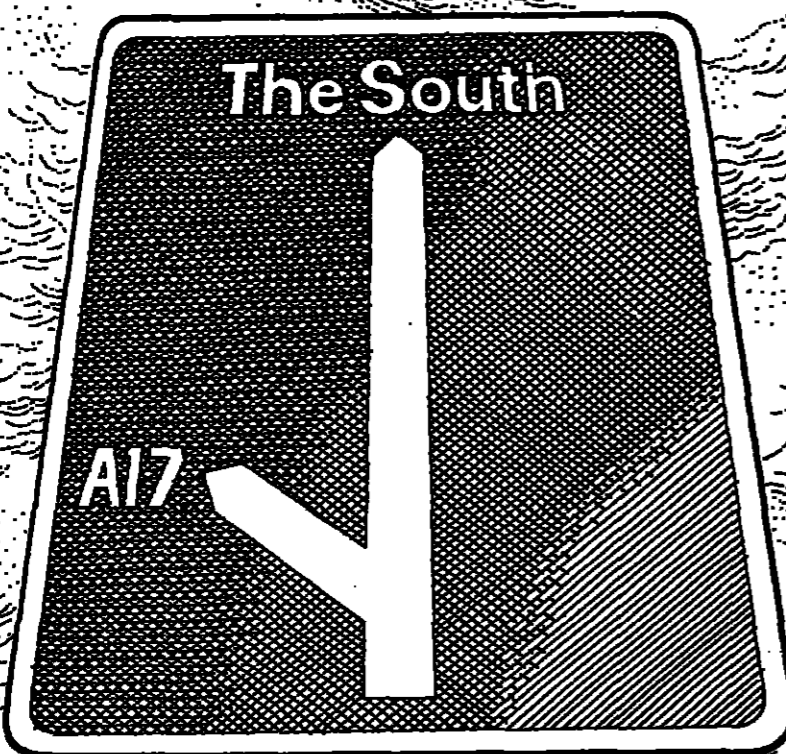
Yet this is sensitive ground, especially at Lloyd's. In 1985, it did not object when San Francisco-based Transamerica, a holding company with big insurance interests, took 39 per cent of the ownership of the brokers on Sedgwick's total shares and 29 which it relies.

per cent of its voting shares. Since 1978, when Frank B. Hall bought Leslie & Godwin, American brokers have owned Lloyd's broking houses. But the conventional rule is that insurance companies cannot own more than 26 per cent of a Lloyd's broker such as Minet, because of the danger of interference and conflicts of interest.

On November 19, a Lloyd's broker regulation working party report produced a proposal to restrict the 26 per cent rule. But the report's small print showed that some Lloyd's underwriters opposed any shareholding links between brokers and insurers.

In the last analysis - in the light of the Transamerica-Sedgwick situation and brokers' commercial problems - Lloyd's will find it hard not to follow the report's recommendation and allow the St Paul-Minet deal. But if it does so, it will be opening the way, for good or ill, to company with big insurance interests, took 39 per cent of the ownership of the brokers on Sedgwick's total shares and 29 which it relies.

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FINANCIAL TIMES

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- Wednesday 13 April
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- Wednesday 25 May
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- Tuesday 21 June
AUTOMATED MANUFACTURING
- Monday 19 September
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OFFER BY SVENSKA HANDELSBANKEN PLC ON BEHALF OF AB INDUSTRIVARDEN TO ACQUIRE ALL THE ISSUED STOCK AND OUTSTANDING CONVERTIBLE NOTES OF PLM AB

An Extraordinary Meeting of stockholders in AB Industrivarden held on November 16, 1987 voted to approve the Decision of the Board of Directors to offer to acquire (by itself or through its wholly owned subsidiary, AB Händelsbanken) all the issued share and outstanding convertible notes of PLM AB not already owned by Industrivarden. In addition, the Meeting voted to approve the issue of not more than 9,111,986 convertible participating notes (CPNs) of Industrivarden. Here follows a summary of the terms and conditions.

Offer to stockholders

Alternative I:
13 CPNs are offered for each full multiple of 10 shares in PLM. For single or odd lots of shares a cash payment is offered.

Alternative II:
To grant Industrivarden the option to purchase their shares during 1988, and 1989, for the same consideration as provided in Alternative I.

Offers to holders of convertible notes
Holders of PLM convertible notes 1987/93 and 1987/94 (who are employees of PLM) are offered CPNs and/or cash payment according to the offers described in the Offer Document.

Summary of Terms of the CPNs
Each CPN entitles the holder into convert to one share in Industrivarden and carries an annual rate of interest equal to 115 per cent of the dividend of one Industrivarden share. The CPNs mature in 2028.

Acceptances should be submitted during the period December 14, 1987 - January 15, 1988, to any office of Svenska Handelsbanken. Offer Documents and Forms of Acceptance may be obtained from Svenska Handelsbanken plc, 17 Devonshire Square, London EC2M 4SQ. AB Industrivarden Board of Directors

HOW TO ATTACK

CONTROLLING US MARKETS

Pressure is building in Congress for reimposing some curbs on Wall Street, writes Lionel Barber

Suddenly regulation ceases to be a dirty word

DEREGULATION is a dead duck, proclaimed Mr James D. Robinson, chairman of American Express, as he pondered the impact of October's stock market meltdown.

If Mr Robinson is to be believed, the Crash of '87 signals the end of an era, a period which peaked with the 1980 landslide election victory of President Ronald Reagan leading a largely anti-government, anti-regulatory crusade.

During the Reagan presidency, the number of financial instruments multiplied, driven by high-speed technology manipulated by highly inventive bankers and traders. The equity markets boomed. Investors and practitioners alike grew rich.

Wall Street was given its head. A political reaction in the US Congress to the record drop in the Dow Jones index is now considered inevitable. Lawmakers like to tell how their telephone lines melted in the week following Black Monday. As the market fell and losses mounted, constituents had one clear message: "Do something!"

Four areas appear ripe for regulatory reform: insider trading, hostile corporate takeovers, computerised ("programme") stock index trading, and the hottest topic of them all, the Reagan Administration's repeal of the 1933 Glass-Steagall Act which established the separation of banking and commerce and the prohibition of commercial banks from engaging in the securities business.

Most Congressional legislation will not be ready until next spring, at the earliest. This reflects not only the difficulties in shaping a collective will within a heterogeneous Congress bereft of party discipline. Many members of the House of Representatives and Senate wait to read the Brady Commission report on the October 28 crash, and the separate investigations by the Securities and Exchange Commission and General Accounting Office before casting their votes.

The softest target is probably programme trading. Most lawmakers expect action as soon as the Brady Commission goes public with its conclusions and recommendations, expected in early January. Senator John Heinz, the Pennsylvania Republican, has already introduced a bill calling for the Federal Reserve, the US central bank, to impose margin requirements for stock index future trading.

Senator Heinz may well have been influenced by the former Fed chairman, Mr Paul Volcker,

who told the New York Times last month: "It's very hard not to rail at the index futures markets - I don't think these techniques add very much to the sum of human endeavour."

Like Mr Volcker, Senator Heinz and many other legislators suspect that the technical capabilities of communications and computers have naturally increased the volatility of financial markets, at least in the short-run. And yet action in this area does not necessarily spell the beginning of a Washington attack on Wall Street. Indeed, it may even be premature to forecast a new era of Congress-inspired "re-regulation" in the US financial markets.

The one fear that unites both the Republican and Democrat parties is that they could in some way be labelled responsible for the market collapse. So when Mr James Baker, the US Treasury Secretary, suggested recently that some anti-takeover provisions contained in a House tax bill may have unsettled the markets, the effect was instantaneous. Both the House Speaker, Mr Jim Wright, and the powerful chairman of the House Ways and Means Bill, Mr Dan Rostenkowski of Illinois, backed off the bill.

As a result, a House congressional aide predicted, two provisions in the tax bill will be substantially watered down: a clause disallowing interest deductible for debt incurred in a hostile takeover, and, similarly, interest expenses of more than 49¢ a year in buying back a majority of a company's stock (businessmen regularly adopted the "buy-back" mechanism as a defence against corporate raiders).

On insider trading, despite the headlines and the police crackdown on Wall Street, Congress is still deadlocked on how to set a legal framework for tackling the abuse. Bipartisan pressure from the US Senate forced the SEC finally to come up with its own definition of insider trading and a bill is pending. But the reality is that everyone is waiting for the Big Man from Michigan, Congressman John Dingell, chairman of the omnipresent House Energy and Commerce committee which can make or break financial legislation on Capitol Hill.

Mr Dingell, built like an All-Pro football linebacker, has yet to throw his weight behind a bill. So far, he has been content to point out that clever lawyers are more than likely to find loopholes in a strict definition of insider trading. Meanwhile, he has started pushing his own bill



Paul Volcker (left), the former Fed chairman, has never been a deregulation enthusiast. Alan Greenspan, his successor, who is, has been compelled to trim his deregulatory sails.

governing "golden parachutes" for executives (multi-million dollar pay-offs to senior executives who lose their jobs as a result of a successful hostile bid), simplified rules on proxy voting, plus some 12 other provisions aimed at making life fairer for the small shareholder.

Critics question how serious Mr Dingell is in translating headline-grabbing public hearings and populist issues into workable legislation. To which Mr Dingell's supporters argue that his methods have often proven effective in cajoling, without legislative fiat, all sorts of businesses (including the accountability profession) to put their houses in order.

Mr Dingell's views will also be crucial to the fate of banking reform in the 100th Congress.

For five years at least, the Reagan Administration has sought to sell the case for deregulating bank activities to a sceptical Congress. The rules were, after all, set in place after the Crash of 1929; why, after the Crash of '87, should the case be any stronger than before?

The most obvious reason is the absence of Mr Volcker at the Fed. He was never a great enthusiast for deregulation, least of all the desire to scrap Glass-Steagall. "It's ironic," he said, "that all the trumpeting now of these protections stemming from the 1929 collapse is being done by the same sources that have been trying to get rid of them and

remove all the inhibitions of the free market."

Mr Alan Greenspan, Mr Volcker's successor as Fed chairman, is a very different animal. A long-standing supporter of deregulation in banking, he believes that unless US commercial banks are allowed to compete in the securities business, they will decline to the point where their experience and knowledge built over decades will be lost to the community.

But Mr Greenspan has trimmed his deregulatory sails in his appearances so far on Capitol Hill. Unlike President Reagan's failed Supreme Court nominee, Judge Robert Bork, Mr Greenspan has curbed his intellectual free-market flair and tried to build bridges with Congress, most notably the chairman of the Senate Banking committee, Senator William Proxmire of Wisconsin.

Senator Proxmire is something of an institution among Senate Democrats. Best known for his "Golden Fleece" award, handed out to those most adept at wasting public money, Senator Proxmire has not had a major piece of legislation to his name in his 30 years in the upper chamber. Banking reform is his last big chance.

Senator Proxmire's switch in favour of repeal of Glass-Steagall is motivated by more than self-interest. First, he is not advocating wholesale repeal of the act; he would only allow

The greater threat comes from within the committee itself. Two freshman Democrats - Senators Tim Wirth of Colorado and Bob Graham of Florida - have introduced a bill which is far more ambitious than Proxmire-Garn. Calling for a new umbrella regulatory authority, their bill also provides for a new "National Electronic Payments Corporation" to expedite large dollar electronic payments in the financial system.

Last week, yet another version, this time from Senator Alfonse D'Amato of New York and Senator Alan Cranston of California - sprouted forth which would break down totally the barriers between banking and commerce.

Senator Proxmire's supporters believe that the rival bills are cover-attempts to torpedo the Proxmire-Garn legislation. By going much further than even the Administration wants, they reckon the bills are designed to stir up opposition within the securities industry (the most likely to be affected by banks' future incursion into their business), and among the insurance and real estate lobbies.

The one factor running in Senator Proxmire's favour is that Congress has promised to act on banking reform rather than, as in the past, putting off the question by slipping an annual moratorium on change. The present moratorium expires next March 1.

Most lawmakers agree that Congress could extend the moratorium in the event of a promising bill emerging from the Senate and the prospect of action six to nine months later. On the other hand, if Mr Dingell does not like what he sees, the bill could be "DOA" - Dead on Arrival - and the whole process could start all over again.

Behind this byzantine manoeuvring lies the long shadow cast by the Crash. To succeed, Senator Proxmire, Mr Greenspan and their followers must persuade Congress that the events of last October really should be divorced from the long-term issue of the need for change in the banking industry. They must also convince a populist suspicion of commercial banks which goes back more than 150 years.

One experienced legislator noted that the Congress rarely likes to make drastic reforms when faced with a violent shock. It usually takes strong vision from outside to do the trick.

On Capitol Hill, the realisation is that the President may once have provided that vision but may no longer be capable as he nears the end of his presidency.



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THE BIG LEAGUE

THE MONDAY PAGE

ANTHONY HARRIS
in Washington

LIVING from one set of monthly trade figures to the next is a relatively new experience for the US financial markets, and any veteran of the long British agonies of the 1960s and 1970s must itch to pass on a few recipes for statistical hangover cures. That may sound unduly flippant, but

some subjects are too painful to be treated entirely seriously; and it is seriously true that the US trade figures are presented to a formula which might have been designed to show them in the worst possible light.

To start with, the first US trade estimates are presented on a customs clearing basis. This method is obviously convenient for the officials concerned, since the documents they handle record values on landing as imports or leaving as exports. The procedure is so simple that, in pre-computer days, mid-month estimates of the trade flow were produced for the British Cabinet simply by weighing the pending documents in the Customs department and applying an average value. The figures were astonishingly reliable.

The result of this method, however, is to include freight and insurance in the value of imports, but to exclude them from the export figures. This

has no economic significance, since what is lost on the merchandise figures is made up, so far as the facts justify, on the services account. It is quite another matter, though, politically. Visible merchandise has a special emotional meaning for politicians on both sides of the Atlantic, especially for those of a protectionist turn of mind.

In Britain it is now more than a decade since the Department of Trade started publishing the figures for imports net of insurance and freight, presenting both sides of the account on a uniform f.o.b. (free on board) basis. By a quirk of legislation, the Bureau of the Census, which produces the US trade statistics, has to wait for two days before presenting this more soothing - and indeed less distorted - version.

The import figures which will appear on your screen today will be about 10 per cent

lower than the figure which made such a bad impression on Thursday. This will help economists, who like to see imports recorded on the same basis as they were when reported as exports, but too late to avoid market shock. The bureau would love to adopt a more British approach and there is a clause which would allow it in the Trade Bill going through Congress. It remains to be seen if it will survive the contentious debate on this bill.

A more serious problem is that the US figures are not at the moment seasonally adjusted. They were so adjusted until 1985 and they will be adjusted in 1989; but for the moment, while the stability of the world financial system may depend on how the trend of US trade is judged in the markets, it is almost impossible to estimate that trend from month to month.

It is also, incidentally, impossible for the US Secretary of

Commerce, Mr William Verity, to adopt an old Department of Trade ruse and suggest that any erratically bad figure could be the result of faulty seasonal adjustment. Perhaps, with a name like that, he would be reluctant to stoop to such a suggestion; but his own fastidiousness will not be tested, because the Bureau of the Census is already so fastidious on his behalf.

The adjustment was suspended in 1985 because of what is known as the hangover problem - the fact that because of ordinary administrative delays, up to half of all trade used to be reported in the wrong month. Although this has never unduly worried London, it offended the bureau's idea of seasonality.

The problem was tackled first by delaying publication for two weeks to allow the paper to catch up - which explains why the US import figures always appear some

time later than the export figures to the US from her main trade partners. Too late, unfortunately, because on January 1 the developed world will switch to a new, harmonised system of trade reporting (mainly concerned with definitions of product categories) and the bureau will need a year's experience of the new basis before it can make a first shot at seasonal adjustment.

Sweet are the uses of bureaucracy. Seasonal adjustment on a uniform reporting basis would constitute an entirely respectable improvement in US trade presentation; but Britain in her extremity invented a number of further adjustments. These are slightly less respectable; but given the fact that the published US current account figures quite certainly overstate the deficit, they may be worth examining.

One, unfortunately, would not survive the Atlantic cross-

ing. The British concept of erratic items - mainly aircraft, office equipment and entrepot trade in precious substances - might actually make the US figures look worse if they were excluded. Britain's imports are more erratic than her exports; for the US, it is probably the other way round. All the same, something might be done about gold (and would have helped on Thursday, when a jump in gold imports made a significant bump in the trade deficit). It might be more realistic in current circumstances to treat gold as a financial investment rather than as merchandise. It would certainly be more reassuring.

Some other British strategists might be adopted almost unchanged. Perhaps the most fruitful was invented by the late Lord Balogh - the Advanced Revision. Lord Balogh discovered that export figures were persistently revised upwards by about 2 per cent

within a few months, reflecting some administrative oddity. He simply arranged that the 2 per cent should be added to the figures before they were published, and the subsequent history of revisions suggests that he got it about right. Effective, if not for the fastidious.

It has also proved helpful in the UK to include an estimate of the services surplus with each month's figures for the merchandise deficit. This gives a pretty inaccurate guide to the current account, but less inaccurate than the bare merchandise figures.

The main aim, surely, should be to ensure that the headline figure is not misleadingly worse than the facts justify. Interpretation, which used to be a great obsession with the Department of Trade, was probably an agreeable waste of time. The solemn briefings in search of rather one-sided "special factors", which were supposed to explain away the worst of the news, never did carry much conviction. But the current US facts are certainly grim enough to justify every honest effort to avoid making them look still worse.

INTERVIEW

Guarding the credit of Pretoria

Anthony Robinson talks to Gerhard de Kock, governor of the South African Reserve Bank

GERHARD DE KOCK, governor of the South African Reserve Bank, leans back against the black leather sofa in his office on the 32nd floor of the brand new Reserve Bank building in Pretoria and confides: "It was hell being governor two years ago - it's a lot more pleasant now."

He is not referring to the comforts of his new office, and its views over the rolling Magaliesburg Mountains and the Italianate pile of the governmental Union Buildings, but to the extraordinary turnaround in South Africa's financial standing since the crisis of August 1986.

That was when Chase Manhattan and other US banks refused to roll over their South African credits and precipitated a rush for the exit. Their decision forced Pretoria to impose a partial moratorium on \$14bn of its total \$24bn foreign debt, to bring back the two-tier rand system, and to tighten exchange controls. There was a further setback in October last year, when the US Congress overruled President Reagan's veto and passed the comprehensive Anti-Apartheid Act at the same time as bankers assembled for the annual IMF and World Bank meetings.

Sanctions have badly hit coal and other commodity exports. The roll-call of US disinvesting companies has lengthened to 143 with the departure in recent weeks of Ford, Emhart Corporation and Merck, the pharmaceuticals company, while the UN General Assembly has renewed its call for comprehensive and mandatory sanctions.

Despite the media restrictions, and the repression of violent protest through a mix of coercion, detention and "good government", the perceptions of millions around the world remain broadly those moulded by nightly scenes of televised violence and brutality and theories of a belligerent President P.W. Botha defiantly waving his finger before a global TV audience.

Few South Africans have a clearer idea of how difficult it was then to be a white South African official than De Kock. He flew to Europe and the US to inform commercial and central bankers of the steps Pretoria was being forced to take in the light of the US exit and the impossibility of raising fresh loans. Now a lined but relaxed governor admits: "We ourselves have been surprised at the improvement in

our situation since then. We were never over-borrowed by any standards. What we faced was a liquidity crisis. But no country is able to repay all its loans overnight."

Yet over the last three years South Africa - a capital-hungry developing country - has been obliged, in De Kock's words, "to act like a little Switzerland, and export capital." At the cost of a painfully slow recovery from a steep recession, South Africa has managed to bring its current account surpluses, equivalent to between 3 and 5 per cent of GDP.

These surpluses have been used not only to pay off \$4.8bn of the original \$24bn debt,

PERSONAL FILE

1926: Born Cape Town.
1947: Graduated from Pretoria University.
1949: Married Jocene Hitchcock; they have two sons and one daughter.
1950: Graduated as PhD in economics from Harvard.
1951: Senior economics lecturer, Pretoria University.
1966: Special economic adviser to Treasury.
1968-71: Alternate executive director IMF.
1977-80: Special economic adviser to Minister of Finance.
1981: Governor of reserve bank.

including all the tranches of an IMF loan, but also to service the entire debt. South Africa has punctiliously respected all interest payments and the terms of the respective debt rescheduling agreements. South Africa loans are performing loans, despite the "debt standstill," De Kock adds.

An increasing number of creditors with funds frozen under the standstill are also taking advantage of the "exit clause" in the March 1987 three-year rescheduling agreement. This allows banks to convert their frozen short-term loans into long-term debt repayable over 10 years.

Many of the less worldly members of an often deeply provincial Government argued that South Africa should react to sanctions and disinvestment on a tit-for-tat basis. It was partly due to the arguments of men like De Kock that, in the end, the decision was made to take a stand on

opposition to sanctions of all kinds, including South African retaliation against those perceived as being most hostile to Pretoria. "Some of the guests at the inauguration of the new Reserve Bank were surprised to be offered Cuban cigars. It wasn't a gimmick - we still trade with them," De Kock says.

The non-discriminatory principle applied to the debt "standstill" means that US banks, which precipitated the crisis (on the principle "if you are going to park, park first"), are treated in the same way as European banks - including those from Switzerland and Germany, which not only criticised US banks for their actions in 1986 but have continued quietly to extend trade and other credits throughout the last few difficult years.

Ironically, shortage of capital is not the reason why the South African economy continues to tick over at much lower growth rates than would be justified by the strong current account surplus, the sharp rise in company profits, negative real interest rates, and other fundamentals which could form the basis for the 4 per cent growth which De Kock believes is achievable in 1988.

"In a way, it is frustrating to point to the fact that we have repaid \$4.8bn in three years and doubled our gold and currency reserves over the last year. What I would like to be able to worry about is rising interest rates, a declining surplus and pressure on the balance of payments. That would mean that the economy was expanding fast enough to absorb unemployment and cope with the 4 per cent annual urban population growth."

At that point South Africa would need more foreign capital. At the moment, however, the main constraint on growth is not external, but the lack of domestic confidence. This is shown by the five-year decline in private fixed investment and a reluctance to spend, especially by white consumers hard-hit by a combination of inflation and higher taxes.

By way of partial compensation, however, De Kock interprets a recent sharp rise in the banknote component of the M3 money supply to indicate a thriving parallel economy in the black townships. With gold hovering around \$400 an ounce, and heavy rainfalls heralding a bumper maize harvest, business con-

fidence generally is rising, he says - despite the stock exchange crash. Even here De Kock believes that South Africa is better placed to weather the storm because of the painful but necessary restructuring which has taken place in the economy over the last three years.

On more delicate ground, he concedes that the growth of a labyrinthine bureaucracy and of government spending are becoming a major burden. "But it is difficult to cut government spending and at the same time honour commitments - for example to equalise education opportunities for all races within 10 years and to implement pay parity for all teachers. The world is always calling on us to do more, but it's expensive, and has to be paid for."

Meanwhile De Kock notes that despite sanctions, South Africa has managed to increase its trade surplus, while disinvestment, far from bringing the economy - and Pretoria - to its knees, has forced a once highly critical

business community to rally behind the Government and concentrate its energies on taking over foreign-owned companies and circumventing sanctions by seeking new markets in Taiwan, South Korea, Latin America and other newly industrialising countries.

"It used to be my private theory, but it's now an established fact - sanctions and disinvestment have not forced Pretoria to speed up change. On the contrary: if foreign companies had stayed and invested more, we would be further down the road to reform and elimination of the vestiges of apartheid. Reform is taking place - nothing and nobody can stop it. You can slow it or accelerate it, but you can't stop it. What foreigners should ask themselves is whether their actions will slow or speed up the pace. Experience shows that sanctions and disinvestment contributed to the Conservative Party becoming the official opposition in the May elections and forced business to divert its

energies into busting sanctions and profiting from disinvestment. The net result has been counter-productive for the sanctions lobbyists. It has slowed the pace of reform."

De Kock is a 61-year-old Afrikaner and son of Dr Mike de Kock, another distinguished government official. He has central banking in his blood. He took his PhD at Harvard after graduating in economics from Pretoria University and cultivated some lifelong friendships with other bankers and central bankers during a three-year spell as an alternate executive director of the IMF between 1968-71.

He is in high demand as a speaker at conferences and dinners: he is a master of the one-liner, able to simplify the complexities of high finance. His composure, integrity, good humour and optimism have done much to win back a grudging admiration for South Africa's stoicism under pressure, which even Pretoria's critics find difficult not to concede.

Sources and disclosure

A FINANCIAL journalist was last week ordered by the House of Lords to reveal his source of information to two inspectors appointed by the Trade and Industry Department to conduct an inquiry into suspected leaks from government departments of price-sensitive information about takeover bids.

Since the legal arguments appeared to be finely balanced, there is a strong feeling among the more ardent supporters of press freedom that only an innate, judicial antipathy towards the media could have tipped the scales in favour of official investigation as opposed to investigative journalism into insider dealing. Such a feeling is fostered by some odd legal reasoning.

The question for legal resolution was the precise ambit of a section in the Contempt of Court Act 1981. Section 10 of that Act provides that no court may order a journalist to disclose his source of information, unless it is established to the satisfaction of the court that disclosure is "necessary in the interests of justice or national security or for the prevention of disorder or crime." Was the pursuit by the two inspectors of the identity of the journalist's informant "necessary for the prevention of crime"? Thus the court had to grapple with the meaning of the phrase used by parliament to convey its intention about the proper scope of the protection of sources of information.

The leading opinion of the Law Lords was delivered by Lord Griffiths. "Necessary," he said, was a word in everyday use. So it is that in the language of the law it has a more precise and definite meaning that is also consonant with primary dictionary meanings. It means something distinctly more than "justified." And the analogue of dictionary meanings includes indispensable, essential, compelling, obligatory and fundamental. All these words should propel any interpreter of the word towards a limited area upon the principle of non-disclosure proclaimed by parliament. Yet Lord Griffiths lay somewhere between "indispensable" and "useful or expedient." The nearest paraphrase he could think of was "really needed." Tacking on the epithet of emphasis does not assist the process of uncovering the intention of parliament.

The judicial inclination to whittle down the need to protect sources of information was even more apparent when the Law Lords considered the "prevention of crime." At least here there was the admission that the phrase was capable of more than one construction. The narrow construction, favouring only a limited requirement to disclose, is that it must appear probable that in the absence of disclosure by the journalist further criminal acts are likely to be committed. That was indeed the construction preferred by Mr Justice Hoffmann when he heard the case earlier this year and decided in favour of the financial journalist. Did not parliament intend to

convey a situation in which identification of the source of information would positively aid in preventing in the future a particular identifiable criminal event?

While it is true that discovery of the authors of particular crimes may stem the tide of continuing criminality, there is not inevitably a causal link between the detection of an offender and the prevention of further crimes. The more serious the criminal activity, the more ready there be an assumption that investigation of past offences will nip further criminality in the bud. The Law Lords made no distinction between the relative gravity of criminal conduct.

Lord Griffiths said that the task was "to probe into and lay bare the whole dishonest web of suspected insider dealing." However serious may be the abuse of information obtained by a person acting in an official capacity, the offence of insider dealing does not require any element of dishonesty. It might have been more helpful had parliament defined the scope of disclosure as relating



only to the prevention of serious criminal events.

On this score the Law Lords have rationality in their favour. The prevention of "crime" carries a very different connotation from prevention of a "crime" or "of crimes." In the broad sense of the phrase - seeking to control unacceptable and punishable social behaviour - crime prevention is a matter of vital public interest. To that end investigators and detectors should be able to look to the press for assistance. Where the Law Lords have misinterpreted parliament's intention is in their failure to read the section in the Contempt of Court Act as a composite phrase.

Disclosure, parliament decreed, may be ordered "in the interests of justice or national security." Justice is always backward-looking; it seeks to adjudicate upon blame for past occurrences. National security is about the past, present and future. Disclosure may alternatively be ordered, not in the interests of order and peace but "for the prevention of disorder or crime." The intention of parliament is not therefore to compel disclosure of sources of information in the interests of maintaining the Queen's peace, desirable as that no doubt is. The requirement of disclosure focuses specifically on stopping of conduct that may lead to criminal events.

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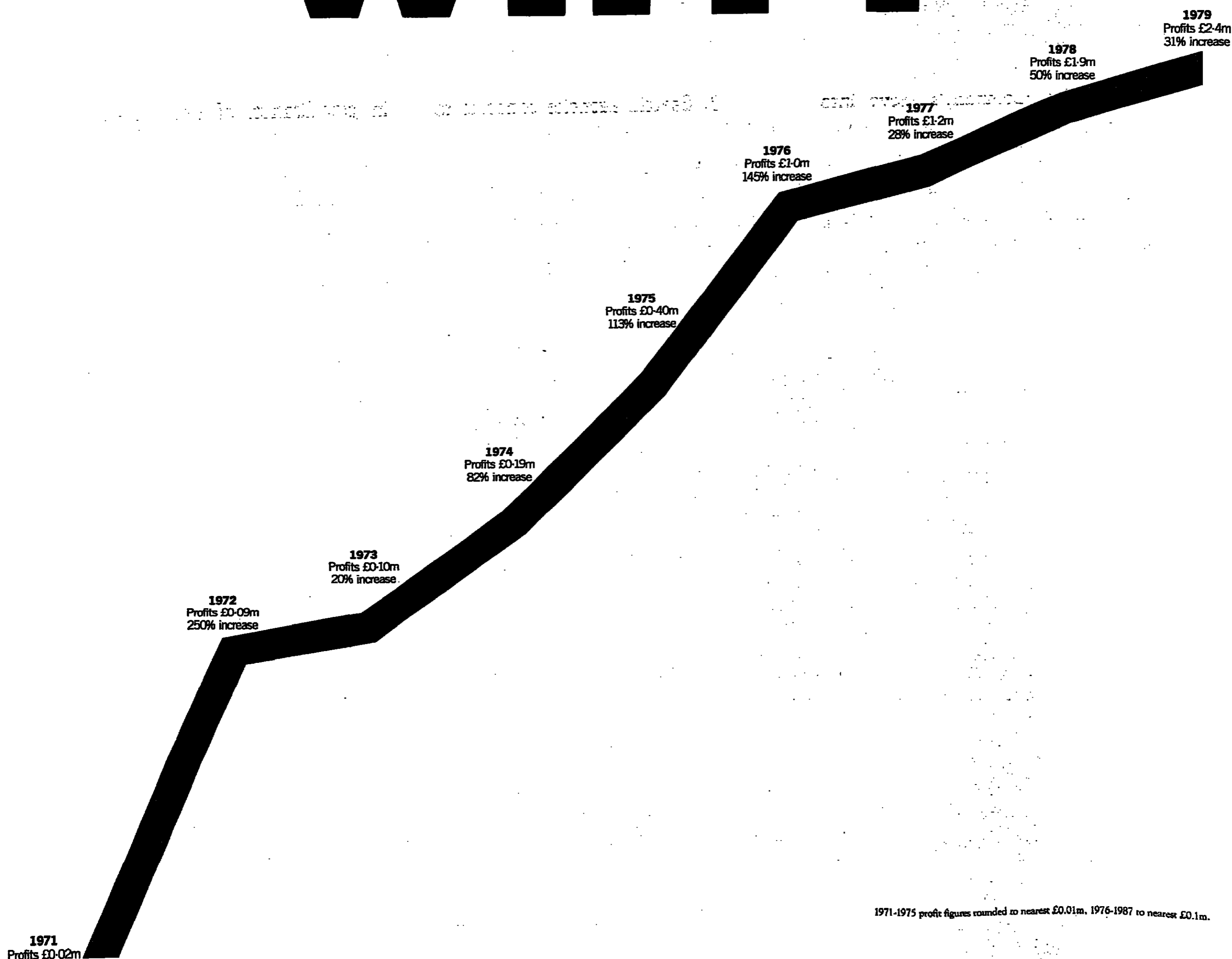


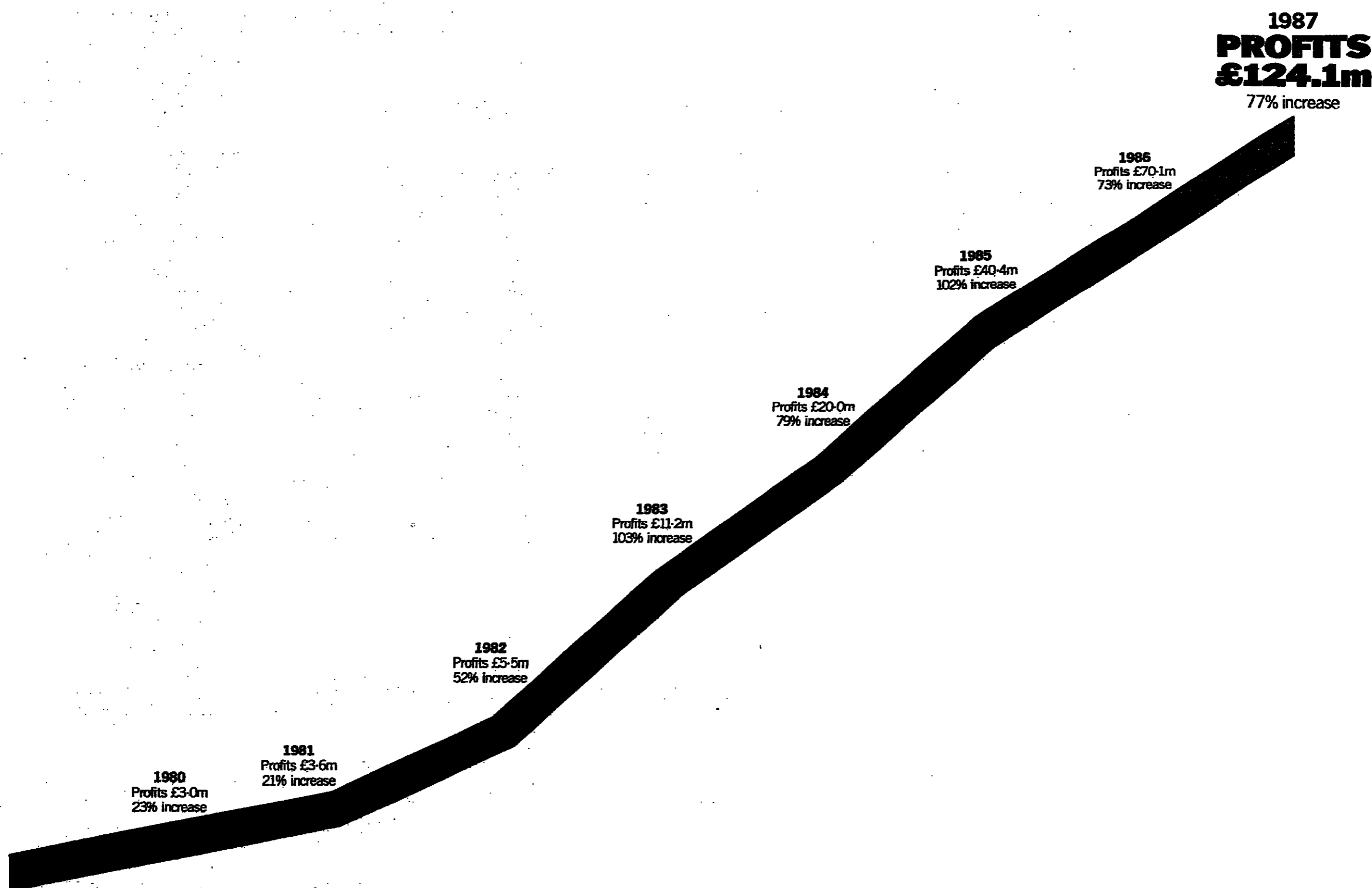
British Steel

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SAATCHI PROFITS UP 77%.

WHY?





1. The Company's move into management consulting shows how new companies joining the group can develop within the organisation.

The Hay Group, a leading worldwide management consultancy, has increased its revenues by 70% and doubled its profits since joining the Company three years ago.

2. The Company has begun to benefit from operating the world's No.1 advertising business.

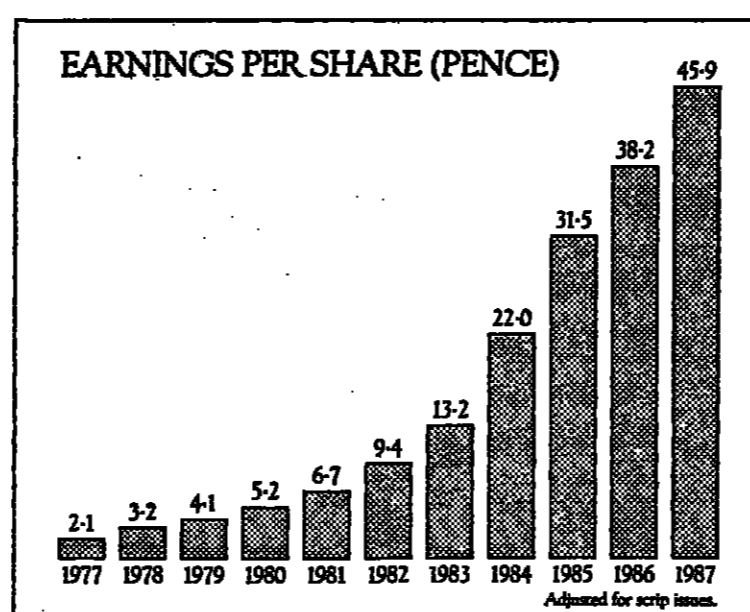
Following the reorganisation of the Company's two global advertising networks, both are now gaining new clients at a remarkable rate - over £170m in new accounts since the start of our new financial year, ten weeks ago.

Profits at the newly-merged Backer Spielvogel Bates network are now 25% higher than they were last year before the two separate companies joined the group.

And in Britain three of the Company's agencies are in the industry's top ten new business chart of 1987, including the overall leader

3. Saatchi agencies continue to defy the conventional wisdom that as you get bigger you get creatively arthritic.

The London Saatchi & Saatchi agency ranks No.1 in turnover and profits,



Over the last decade Saatchi has one of the top three Earnings per Share growth rates of any major UK company.

and yet still wins more major creative awards than any other agency in Britain.

At the 1987 Cannes Festival its international network won more awards than any other agency in the world.

4. The Company now has 14,000 employees in 57 countries worldwide, working for over 250 of the world's top 500 corporations. The Company's belief

in globalisation of world markets is being shared by an increasing number of these corporations. 70 clients now work with the Company across five or more countries.

5. The Saatchi commitment to a full range of business services is also providing growth opportunities.

Over 50 clients now work with the Company across three or more service lines, including management consulting, recruitment, remuneration and pensions, litigation counselling, financial information systems, public relations, research, design, sales promotion and advertising.

Over one-fifth of all new projects are now gained via referral from sister companies within the organisation, helping the group achieve around 25% organic profit growth in 1987.

6. In all its actions the Company's overriding aim is to give itself and its clients a sustainable competitive edge. It is guided in this by its founding maxim: It's good to be big, it's better to be good, but it's best to be both.

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New Issue

22nd October, 1987

U.S. \$100,000,000



AT&T
Credit Corporation

9¼ per cent. Notes due 1990
with
100,000 Gold Warrants

Issue Price 112.75 per cent.

Union Bank of Switzerland (Securities) Limited

Banque Indosuez

Crédit Lyonnais

Credit Suisse First Boston Limited

Shearson Lehman Brothers International

Banque Bruxelles Lambert S.A.

Banque Paribas Capital Markets Limited

Commerzbank Aktiengesellschaft

Deutsche Bank Capital Markets Limited

Dominion Securities Inc.

Goldman Sachs International Corp.

Morgan Stanley International

Salomon Brothers International Limited

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New Issue

15th October, 1987



U.S. \$200,000,000

Ford Motor Credit Company

9½% Notes due October 15, 1990

Issue Price 101¼ per cent.

Union Bank of Switzerland (Securities) Limited

Citicorp Investment Bank Limited

Commerzbank Aktiengesellschaft

Goldman Sachs International Corp.

Shearson Lehman Brothers International

Banque Bruxelles Lambert S.A.

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BNP Capital Markets Limited

S.G. Warburg Securities

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New Issue

28th October, 1987

Can. \$90,000,000

Xerox Canada Finance Inc.
(Incorporated with limited liability in Canada)

11½ per cent. Debentures due 1992

Issue Price 101½ per cent.

Union Bank of Switzerland (Securities) Limited

Deutsche Bank Capital Markets Limited

McLeod Young Weir International Limited

Société Générale

Wood Gundy Inc.

Bank of Montreal Capital Markets Limited

Banque Bruxelles Lambert S.A.

Banque Internationale à Luxembourg S.A.

Chase Investment Bank

CIBC Capital Markets

Citicorp Investment Bank Limited

Commerzbank Aktiengesellschaft

Crédit Commercial de France

Dominion Securities Inc.

Generale Bank

Goldman Sachs International Corp.

The Nikko Securities Co., (Europe) Ltd.

Nomura International Limited

Salomon Brothers International Limited

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New Issue

1st December, 1987



U.S. \$200,000,000

9½ per cent. Guaranteed Notes due 1989

unconditionally guaranteed by

ISTITUTO MOBILIARE ITALIANO

Issue Price 101 per cent.

Union Bank of Switzerland (Securities) Limited

Bankers Trust International Limited

Crédit Lyonnais

Deutsche Bank Capital Markets Limited

Goldman Sachs International Corp.

IBJ International Limited

IMI Capital Markets (UK) Ltd

Morgan Guaranty Ltd

Nomura International Limited

Banca del Gottardo

Banca Mannsardi & C.

Banca Nazionale del Lavoro

Banque Bruxelles Lambert S.A.

BNP Capital Markets Limited

BSI (Overseas) Ltd.

Crédit Commercial de France

Credit Suisse First Boston Limited

Daiwa Europe Limited

Dresdner Bank Aktiengesellschaft

Euromobiliare Limited

Leu Securities Limited

Mitsubishi Finance International Limited

Morgan Stanley International

The Nikko Securities Co., (Europe) Ltd.

S.G. Warburg Securities

Wood Gundy Inc.

Yamaichi International (Europe) Limited

Yasuda Trust Europe Limited

Guinness sets up gas supplier sale

Speyhawk profits rise by 65% to over £10m

Radio Clyde near £1m

costs continued to be controlled carefully. Additionally, the recently-announced change in the calculation of secondary rental from October 1 1986 had resulted in the marginal rate on broadcast profits falling from 45 to 20 per cent. The liability to secondary rental for 1986/87 was £120,000 compared with £126,000 for 1985/86, despite the substantial increase in profits.

Since the end of the financial year, advertising revenue for October and November exceeded that for the corresponding period of last year by 16 per cent.

Alexander Russell down as expected

FT Share Service

The following securities have been added to the Share Information Service:

- Atlantic Assets Trust Warrants (Section: Investment Trusts).
- Biomechanics International (Industrials).
- Chemsearch (Paper).
- Company of Designers (Industrials).
- EFM Dragon Trust (Investment Trusts).
- Eliza MacLellan (Engineering).
- Independent Investment Co. Warrants (Investment Trusts).
- Kemp (P.E.) (Third Market).
- Marcel Group (Electricals).
- Max Nicklin (Industrials).
- Moorgate Investment Trust Warrants (Investment Trusts).
- Norfolk (Foods).
- Power Corporation (Property).
- Southend Stadium 54% Preference (Property).
- Stanhope Properties (Property).
- Tabular Exhibition Group (Industrials).
- Welf Holdings (Industrials).
- Wise Securities (Industrials).

Max Wilkinson looks at the continuing two-way battle for Britoil

Prospecting for future oil reserves

Offshore UK
Producing gas field interests:
Thames (operator), Hewett, North Hewett, Leman discoveries include 48/11 & 48/23

Offshore Norway
Discoveries:
Braga, Helndrun, 8508/12, 6507/11, 6407/2

Offshore Netherlands
Block K-12 gas production

Production 1986
Oil condensate & NGL production 74600 b/day
Indonesia [bar chart] [pie chart] Other
Dubai [pie chart]
Natural gas sales 141m cubic ft/day
North Sea [bar chart] Indonesia [pie chart] Other

Dubal
Margham gas field

For BP the logic is fairly obvious: Brittol's large reserves and extensive exploration licences in the North Sea and elsewhere strengthen BP's already strong position in UK waters. So, although BP has not yet revealed its longer term intentions, it is not hard to see how the Government would need to block the move, if it could be sure the Government would not block the move by the use of its "golden share" in the company. This share, implanted in BP in 1965 when Arco Petroleum Corporation was privatised in 1982, gives the Government a veto against any takeover.

It is less clear what Arco is offering. No doubt an offer to save the jobs of the 1,000 employees of the oil company from the clutches of BP is less eccentric than its move 11 years ago to rescue the Observer newspaper from collapse.

... then the company and the oil markets have moved a long way since the late 1970's when a touch of philanthropy or daring could still make an acquisition look desirable in the boardrooms of the City.

Since then the collapse of oil

prices and severe cuts to staff and exploration budgets have forced all oil companies to take a much more careful view of potential acquisitions as well as of their own operations.

For Arco, the last two years have been a period of tough management-led consolidation. It cut its workforce by almost 8,000 or 20 per cent in 1986, in anticipation of the fall in oil prices. Since then it has sold or leased off non-core assets such as its US oil refining and production and minerals operations. The total realised from these disposals in 1986 was \$2.3bn.

The drive to consolidate the core business of larger oil and gas operations has continued. In 1987, for example, Exxon produced some 10,000 barrels per day were sold to a joint venture of Lorch, in conjunction with Arco's collocation former chairman Robert Anderson, which had been set up to produce chemicals. Anderson, says, "were

announced to float part of its profitable chemicals business."

This consolidation has been matched by an ambitious \$480m programme of buying in its own equity, equivalent to about one-third of the company's market value at the beginning of this year; it was resumed soon after the October crash in stock market values.

The restructuring has left Arco as a major beneficiary of the US oil companies in the mainstream of oil and gas business, but its operations are heavily biased towards the US.

In the first nine months of this year, Arco's average US production of crude and natural gas liquids at 660,000 barrels a day was second only to that of Exxon. However, Arco's production outside the US—mainly from the North Sea and Indonesia, was only running at an average of 73,000 b/d, less than 7 per cent of Exxon's production. This compares with other majors, such as Shell, whose foreign production is smaller than the fore-

production of any of the other major US oil companies.

Similarly, in the downstream part of the business, Arco's after tax profit from US operations for 1984 was the second highest, ranked second after Amstar Hess, even though Arco is only the seventh largest US refiner.

The concentration of Arco's business is even more marked than that of the other majors. It was transformed by its extraordinary good fortune (shared with BP) in finding one of the US's largest oil fields at Prudhoe in Alaska, the largest in the world, the big league. The company, started by Mr Anderson at the age of 24 with borrowed capital of \$50,000, is now the US's seventh largest oil company with total assets just under \$16bn at the end of last year.

Alaskan crude now accounts for just under 60 per cent of Arco's crude oil output, a proportion which is likely to rise as some HES is newly developed

newly issued shares. The largest block of these assets would be in the North Sea, which accounted for nearly 40 per cent of Arco's crude production outside the US last year. Arco's output from the UK sector of the North Sea last year was about half Britoil's.

Undoubtedly, the attraction of Arco, from the Britoil management's point of view, is that it would expand its operations outside the UK and guarantee the company's independence for a time at least. But for how long?

There are two possible medium term strategies open to Arco. The first would be to use the Britoil deal to shuffle off its relatively small US operations to a partner, then consolidate its energies in Alaska and the rest of the US. The second would be to keep Britoil in the corner of its mouth, to be swallowed later as the basis for a drive to expand outside the US.

Of course, it might do both.

MK Electric, currently subject to two hostile bids, has been granted a few extra days by the Takeover Panel in which to prepare its defence document.

Normally, it would be due this week-end, two weeks after RTZ put out its offer document. However, MK is being allowed extra time to muster its arguments against the subsequent bid from Legrand. The document is likely to be published tomorrow.

Glan Abbey, Dublin-based property and investment company which was transformed from a textile manufacturer after restructuring was completed in 1988, cut pre-tax its losses in the six months to June 30 1987.

Losses fell from £205,000 (£186,000) to \$5,000 on turnover down sharply from \$3.53m to \$131,000. After nil tax charges, losses per 25p ordinary share were cut from 5.7p to 0.13p.

Hardys & Hansons, Nottingham-based brewer, reported pre-tax profit for the year to October 2 1987 up 14 per cent from £3.67m to £4.18m. Turnover was little changed at £20.57m against £20.52m.

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements, except when the forthcoming board meetings (indicated thus *) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

Date	month last	Date	month last
• Ausco News Jan 7	Final 4.5	• Placid Elec Jan 26	Final 7.65
• Big Land Dec 15	Interim 1.25	• Reflex Jan 12	Interim 1.0
• Black Jan 14	Interim 1.2	• Thom E&I Dec 10	Interim 5.0
• English Dec 16	Final 8.25	• TRF Jan 15	Final 4.67
• China Clay Dec 16	Final 8.25	• Vanco Dec 15	Final 8.32
• Grand Met Dec 17	Final 6.25	• Ward Dec 15	Final 4.0
• Mountain Dec 16	Interim 6.0	• Slocors Jan 6	

To the Bondholders:
We, Chuang Pharmaceutical Co., Ltd., hereby notify you that, as a result of a free distribution of shares of Common Stock to shareholders of record as of 31st December, 1987, Japan time, at the rate of 0.03 share for each share held, the conversion rate of the above-captioned Bonds will be adjusted pursuant to Condition 6, paragraph (A), sub-paragraph (i) of the Terms and Conditions of the Bonds under the Trust Deed dated 29th June, 1982 from Yen 464.5 to Yen 442.4 per share, effective as from 1st January, 1988, Japan time.

14th December, 1987

The Sumitomo Bank, Limited
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Notice is hereby given that the above Series of Notes issued under a production Loan and Credit Agreement dated 9th March, 1969, carry an Interest Rate of 8% per annum. The Issue Date of the above Series of Notes is 15th December, 1968 and the Maturity Date will be 15th June, 1988. The Euro-denominated reference numbers for this Series are 70231 and 71659 and the CEDEL reference number is 943860.

Manufacturers Hanover Limited
Jagw Agant

Applications	Company	Price	Change on week	Gross yield (%)	Yield (%)	P/E
6665	Acs. Bklt. Inc.	286	0	8.9	4.5	7.3
6665	Acs. Bklt. Inc. CUSL	282	5	10.0	5.0	
7075	Amstar Corp. and Subs.	253	0	15.8	3.4	11.2
4386	BBS Design Group (TSML)	53	-2	21.1	9.9	8.5
103166	Borden Group	12500	0	2.7	1.7	26.5
9175	Chem. Ind. Inc.	257	0	17.5	3.4	11.6
917	CEL Group Ordinary	1620	0	22.5	4.7	8.7
16575	CCP Group 11% Over Pst.	134	-1	15.7	11.7	
16991	Corning Corp.	133	-4	5.4	4.1	21.6
9175	Corning 7.2% Pref.	1080	0	20.3		
2676	Great Seal	745	+2	5.7	2.6	37.7
5975	Isco Inc.	25	-2	-	-	-
9175	Jackson Group	9100	0	21.0		
24173	Multihome N.Y. (Amsted)	310	-30	3.4	3.7	10.1
2620	Record Holdings (SE)	58	0	0.1	-	11.3
2620	Record Holdings 107% Pref (SE)	58	0	34.1	13.1	2.4
2621	Robert Jones	35	-3	-	-	2.4
2620	Serations	12400	0	1.5	1.1	24.1
5739	Torrey & Carlisle	210	0	6.6	3.3	9.8
2620	Torrey Holdings (USML)	210	0	2.7	4.2	7.0
5975	Unifac Holdings (USML)	49	-2	1.7	2.8	10.0
46489	Whelan Aluminum (SE)	169	+4	5.9	5.5	20.4
4761	W. S. Warren	204	-1	17.4	8.5	12.5
4290	West. Water and Sew. (USML)	120	0	1.7	1.7	12.5

**The FT is proposing
to publish this survey
on
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Mr Ross Tanner, Assistant General Manager, Credit & Marketing Division at Kansallis-Osake-Pankki, London branch has resigned in order to pursue other responsibilities in Financial and Management Consultancy.

Greycoat Group PLC:
a sound strategy continues
to produce excellent results.

Announcing impressive Interim Results for the half year to September 30, Mr Geoffrey Wilson, Chairman of Greycoat, emphasised the importance of the Group's consistent strategy, adding:

"I AM CONFIDENT THAT OUR CONCENTRATION ON DEVELOPING NEW BUILDINGS OF OUTSTANDING QUALITY AND OUR STRESS UPON THE IMPORTANCE OF THEIR LOCATION WILL CONTINUE TO UNDERWRITE OUR CONTINUED SUCCESS AND CONSEQUENT GROWTH."

Gross Rental Income	£6.1 million	UP 33%	on 1986 interim figures
Pre-tax profits	£6.3 million	UP 63%	on 1986 interim figures
Earnings per share	7.8p	UP 59%	on 1986 interim figures

For your copy of the 1987 Interim Results, please write to
The Company Secretary, Greycoat Group PLC, Leconfield House,
Curzon Street, London W1Y 7EB



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Notice is hereby given that the Rate of Interest has been fixed at 8.375% and that the interest payable on the relevant Interest Payment Date, March 14, 1988, against Coupon No. 36 in respect of US\$1,000 nominal of the Notes will be US\$21.17.

December 14, 1987, London
By: Citibank, N.A. (CSSI Dept.), Agent Bank

CITIBANK

	Dec. 11	Dec. 10	9	8	7	6	5	4	3	2	1	Low	Stress Contingency	High	Low
Government Secs.	88.37	88.94	89.17	89.08	89.04	89.58	89.32	89.32	83.75	127.4	49.18				
Fixed Interest	96.21	96.52	96.49	96.59	96.79	96.40	99.12	99.23	99.23	100.54	50.59				
Ordinary	131.07	128.05	129.74	129.94	127.93	126.27	136.26	123.92	139.26	49.4					
Gold Mines	327.34	327.93	328.68	317.3	312.2	329.4	47.5	261.6	73.4	43.5					
FT-Acc All Share	831.06	814.77	822.60	815.50	808.05	795.94	1234.5	764.81	1268.57	61.92					
FT-SE 100	1651.66	1619.64	1699.34	1624.4	1593.4	1582.8	1634	1565.2	1643.4	968.0					

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

[illegible]

Issue Price p	Amount Paid up	Latest Reissue Date	1987		Stock	Closing Price p	+ or -
			High	Low			
300	NH	-	52pm	19pm	4Applied Holographics Sp	23pm	-3
80	NH	2/1/82	44pm	20pm	City & Parish	23pm	
85	NH	1/3/81	46pm	20pm	Press, Tools	23pm	
	NH		3pm		WEEKS Exp. 10p	3pm	

[illegible]

CIVIL AVIATION IN THE PACIFIC BASIN: THE PATTERN OF THE FUTURE

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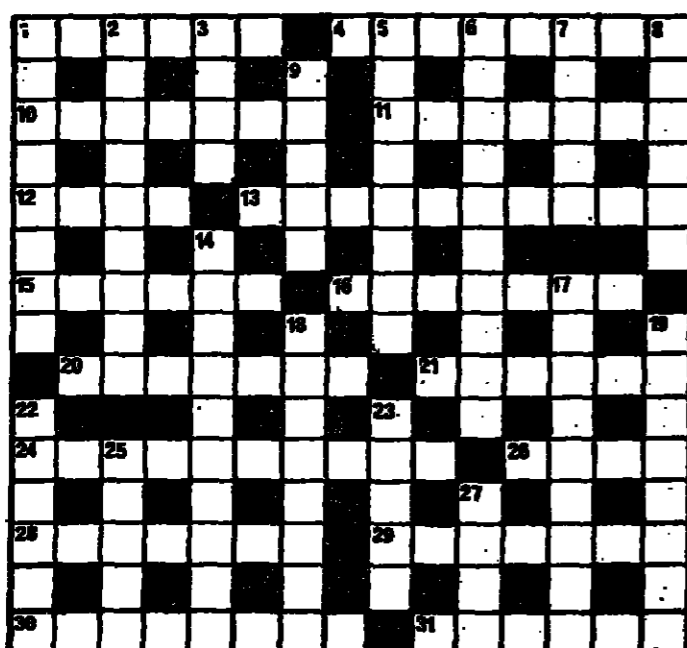
**Plasterers Hall,
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11, 12 & 15 February,
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ACROSS

- ACROSS**

 - 1 Respect for king perhaps (6)
 - 4 Call up and arm the engineers first (8)
 - 9 Field department once used to suspend naval miscreants (7)
 - 11 Search for and find watch (4,3)
 - 12 The first of us gives notice in the morning (4)
 - 13 He gets strangers talking and is useful when main is frozen (10)
 - 14 Show first mate round, in and out (8)
 - 16 Boos: not working - leave launch pad (4,3)
 - 20 Someone who can't appreciate Tangle is crazy (7)
 - 21 Rise up and (6)
 - 24 Murdered and abandoned round watering-hole (10)
 - 26 Second hand in famous Edwardian clock (4)
 - 28 I raced round and about with antique books (6)
 - 29 Measures high prices (7)
 - 30 Seasoning? Salt, in the past (in the navy) (8)
 - 31 Saw old suffer arrest (6)

DOWN

 - 1 Farmworker contributes to Punch (8)
 - 2 Dashed over with share account (9)
 - 3 Country hasn't begun to reveal these mountains (4)
 - 5 From the collection of different Bries - about 41 (2,6)
 - 6 Thinking of oneself, for example over concert arrangements (10)
 - 7 Piece of sea a small river in volume (6)
 - 8 Come back with flask (8)
 - 9 Buffeting for coastal vessel (5)
 - 14 Mark old Roman with a seal (10)
 - 17 Using all resources, complete system of graduation (4-6)
 - 18 Cast is off, about to play shortly, separately (8)
 - 19 Saw unusually educated cleric in front of proper up (6)
 - 22 It's coming from the overhead ventilation system (6)
 - 23 Sort of face that lights up (5)
 - 25 Search thoroughly for indication of carbon in acid (6)
 - 27 Man's one hearing passage (4)

The solution to last week's prize puzzle will be published with names of winners on Friday.

FT UNIT TRUST INFORMATION SERVICE[illegible]

Continued on next page

[illegible]

BRITISH FUNDS

BRITISH FUNDS - Contd

FOREIGN BONDS & RAILS

[illegible]

AMERICANS - Contd

BUILDING, TIMBER, ROADS

DRAPERY AND STORES - Contd**ENGINEERING – Contd.**

INDUSTRIALS (Miscel.) - Contd

INDUSTRIALS (Miscel.) - Contd.

CANADIANS

Mar. Oct.	Magnum	187	29.6	76.1	2.9	4.5
Nov. May	Masters (1/2 day)	300	28.9	†10.0	2.1	4.6
Oct. May	Masters	123	14.9	26.1	3.0	4.6

Dec-Jan	AS Electronic	293	28.9	12.5	1.9	5.0	1
---------	---------------	-----	------	------	-----	-----	---

Chamberlain & HUK	131nd	7.12	+4.0	2
Cheering Group Sp	570	15.6	+16.5	2

July Jan.	Avon Rubber Pl.	543	2.6	32.0	4	2.5
-	BAA	100ms	7.12	16.6	2.4	3.7

Nov. 2000	Steel Closures	138	14.9	146.17	0.9	6.1	20
Nov. 2000	Steel Closures	114	12.0	126.1	2.7	3.1	20

BANKS, HP & LEASING

Oct May	Alcoa Holdings	285	14.9	18.0	2.8	3.0
Aug Feb	Allied Colloids 10p	102	13.7	14.88	3.3	2.5
-	Henry Plastics Tech 3000	35	-	102.5	4.6	2.8

Feb Aug	Danbury W 10p	27	27.7	+1.2	2.4	4.0	1
Apr Oct	Danbury W 10p	41	27.7	+1.2	2.4	4.0	1
Feb Aug	Danbury Print Sci 5p	270	13.7	2.3	7.4	1.1	1
Mar 91	Danbury Print Sci 5p	270	13.7	2.3	7.4	1.1	1

Admissions	201	28.9	59.6	1
Dropouts	33	14.9	0.4	3
Net-Enr (Percent)	171	14.9	97.8	3

Apr-May	150	15.7	7.2	1.4	8.2
Sept-Mar	50	14.9	2.0	2.3	5.5
Sept-Feb	115	27.7	14.75	2.9	5.7

April 1984	RCO 10p	83	24.8	13.91	21	6.4	10
December	BRKF Group 10p	75	9.11	22.19	24	3.8	13
December	BRKF Group 10p	102	10.8	2.75	21		

BEERS, WINES & SPIRITS

Mayflow	2-Standard 10p	71	26.18	4.5	0.87
Any Feb	Body Shop Int Sp	575	15.6	111.5	6.2
-	Balloon Tires Sp	33	11.91	-	-

Jan-Apr 91	Mar 91	Mar 90	Mar 89	Mar 88	Mar 87
Mar Sept	Mar Sept	Mar Sept	Mar Sept	Mar Sept	Mar Sept
December	December	December	December	December	December
Multitronics Elect.	51	27.7	0.1	-	0.3
Murray Electronics	43	12.10	0.2	1.9	0.6

ry	Chesley W Food Sp.	278	13.7	+4.06	2
z.	Clifford's Dairies	500	28.9	+8.0	2
1	Do "4" M-V	150	6.6	+8.0	2

Sept. Mar.	Exp. Chain Cnys.	385	24.8	\$13.25	2.4	4.7	1
May Nov.	Epicure Hlthg. Sp.	38	28.9	N0.79	1.7	3.4	2

-	Task Force Sp	21	-	-	-	-	-
-	Task Force Sp	180	24.8	11.82	4.0	1.4	24.8
Oct. Acy.	Task Force Sp	200	24.8	11.82	4.0	1.4	24.8

BUILDING TRADER BOARDS

July Feb.	Glasco Group 20p	278	-	14.5	1.7	5.0
	Kalshberg (A)	140	1.6	14.75	2.3	4.7
	Condens Group 5p	31	1073	-	-	-

Apr-Oct	1st Specials 2004-14	23.3	7.4	21.1	15.4
-	2nd Specials 2004-14	26.3	11.2	0	2.3
October	4th Specials 2004-14	24.8	13.0	3.2	2.2

ch	Noncons Group 10p.	561.2	15.6	12.8	3
ch	Northern Foods	298	13.7	9.0	2
	Northern's Food 5c	88	15.6	11.7	2

Feb. July	March Sept	September
Da. Spc. La. 2004-09	Da. Spc. La. 2007-12	
122	216	215
15.8	24.8	24.8
4.4	Q9%	Q10%
82.9	44.4	7.9
5.1	15.6	18.9

October	1985	24.8	11.1	82.6	2.7	4.4	19.1
Waterford Glass Sp.	1985	485	13.3	10.3	8.4	3.8	3.1
Waterford Glass Sp.	1985	24.8	11.1	82.6	2.7	4.4	19.1

Aug.	Atlantic Tel.	378	23.12	28.13	2.5	12.12	1.2
Aug. 2nd	West. Industries Inc.	378	23.17	28.13	2.5	12.12	1.2
Aug. 3rd	W. Ind. & Eng.	378	23.17	28.13	2.5	12.12	1.2
Aug. 4th	W. Ind. & Eng.	378	23.17	28.13	2.5	12.12	1.2
Aug. 5th	W. Ind. & Eng.	378	23.17	28.13	2.5	12.12	1.2
Aug. 6th	W. Ind. & Eng.	378	23.17	28.13	2.5	12.12	1.2
Aug. 7th	W. Ind. & Eng.	378	23.17	28.13	2.5	12.12	1.2
Aug. 8th	W. Ind. & Eng.	378	23.17	28.13	2.5	12.12	1.2
Aug. 9th	W. Ind. & Eng.	378	23.17	28.13	2.5	12.12	1.2
Aug. 10th	W. Ind. & Eng.	378	23.17	28.13	2.5	12.12	1.2
Aug. 11th	W. Ind. & Eng.	378	23.17	28.13	2.5	12.12	1.2
Aug. 12th	W. Ind. & Eng.	378	23.17	28.13	2.5	12.12	1.2
Aug. 13th	W. Ind. & Eng.	378	23.17	28.13	2.5	12.12	1.2
Aug. 14th	W. Ind. & Eng.	378	23.17	28.13	2.5	12.12	1.2
Aug. 15th	W. Ind. & Eng.	378	23.17	28.13	2.5	12.12	1.2
Aug. 16th	W. Ind. & Eng.	378	23.17	28.13	2.5	12.12	1.2
Aug. 17th	W. Ind. & Eng.	378	23.17	28.13	2.5	12.12	1.2
Aug. 18th	W. Ind. & Eng.	378	23.17	28.13	2.5	12.12	1.2
Aug. 19th	W. Ind. & Eng.	378	23.17	28.13	2.5	12.12	1.2
Aug. 20th	W. Ind. & Eng.	378	23.17	28.13	2.5	12.12	1.2
Aug. 21st	W. Ind. & Eng.	378	23.17	28.13	2.5	12.12	1.2
Aug. 22nd	W. Ind. & Eng.	378	23.17	28.13	2.5	12.12	1.2
Aug. 23rd	W. Ind. & Eng.	378	23.17	28.13	2.5	12.12	1.2
Aug. 24th	W. Ind. & Eng.	378	23.17	28.13	2.5	12.12	1.2
Aug. 25th	W. Ind. & Eng.	378	23.17	28.13	2.5	12.12	1.2
Aug. 26th	W. Ind. & Eng.	378	23.17	28.13	2.5	12.12	1.2
Aug. 27th	W. Ind. & Eng.	378	23.17	28.13	2.5	12.12	1.2
Aug. 28th	W. Ind. & Eng.	378	23.17	28.13	2.5	12.12	1.2
Aug. 29th	W. Ind. & Eng.	378	23.17	28.13	2.5	12.12	1.2
Aug. 30th	W. Ind. & Eng.	378	23.17	28.13	2.5	12.12	1.2
Aug. 31st	W. Ind. & Eng.	378	23.17	28.13	2.5	12.12	1.2

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MANAGEMENTTHE
INFORMATION
EDGE

THE ILL WINDS which devastated the south-east of Britain in the middle of October this year cost Royal Insurance UK of Liverpool some £80m in settled claims, but they also blew it a unique opportunity to test the effectiveness of an innovation which it is now convinced will be a major factor in its future competitiveness.

The innovation itself, a novel, US-built computer system, hardly seems the thing to set pulses racing these days, yet the glimpse of its potential seen in the aftermath of the storm was enough to have Peter Duerden, Royal's managing director, publicly enthusing about its capabilities in the weeks that followed.

Andrew Campbell-Hart, general manager for corporate services and a member of Royal's board, endorses his chief's view: "It seems to offer quite significant advantages over any other approach we have considered," he says.

Why should a new computer system, however powerful, arouse so much enthusiasm in the senior ranks of the Royal? After all, executives in many financial services companies these days are expressing disappointment in the returns they get from their investment in data processing.

It is important, first of all, to understand that the insurance business is changing rapidly and that the Royal is determined to stay ahead of the game.

It is already one of Britain's leading insurers with over 4m accounts spread across all classes of general insurance; it has special strengths in household, personal motor, commercial property, motor fleet and engineering.

In a tough period for insurers generally, it is doing well. Last year, its pre-tax profits were £95.5m on £982m of premiums written.

But its senior executives are well aware that the structure of the business is changing profoundly, driven, as Duerden describes it, by a combination of increasingly sophisticated demands from its customers, new competition resulting from changes in legislation and novel opportunities for transacting business in new ways through technology.

That awareness gave rise last year to a thorough review of company policy leading to a strategy Duerden calls "Staying Ahead".

The essence of the strategy is that the company has to move closer to the people who are the

How Royal stormed into a new technological age

Alan Cane begins a regular look at the way companies are integrating information technology into their operations and are exploiting the consequent advantage



Peter Duerden, managing director (left), and Andrew Campbell-Hart, general manager, corporate services, of Royal Insurance UK set out to give regional managers the information they needed following devolution of management power and responsibility.

main source of its revenues - the brokers, agents and other intermediaries who are its business "channels", funneling business to the company from the public, the ultimate customer.

In order to manage this "channel focus" better, Royal set out to devolve management power and responsibility, creating twelve separate regions covering the country, each with its own management team.

But this decision created a problem which could only be solved by the imaginative use of information technology - how to give the regional managers the information they needed to do their job properly.

Success in the insurance business depends on a profound knowledge of the market - so that risk can be accurately assessed - and the ability to move quickly when circumstances change.

It would be critical, for example, for a regional manager to know quickly if a particular class of insurance was proving unprofitable and why. To know, in fact, if any factor or group of factors was changing the nature of the market.

To take a specific case, a particular model of motor car might eventually prove to have a peculiarity which could lead to a higher than average level of claims. Insurers need to know

that kind of thing quickly - and preferably ahead of the competition.

All the data are, in fact, locked up in an insurance company's computer files, but the problem is how to let the managers on the ground get at them easily, so that they can be helped in their own decision making and to give their business channels an edge over the competition.

The Royal has an impressive and efficient computer centre housing two large IBM mainframe computers. By most standards, it is technologically advanced; a few years ago it established a major telecommunications network to support some 2,000 terminals in 70 locations around the country.

One option open to the company was to provide each region with a stripped-down version of the master computer file; that was rejected because distributing data in that way can result in horrendous organisational problems - ensuring, for example, that data is consistent across the company means expensive technical support at each centre. The whole idea is fraught with risk.

The problem, therefore, was how to provide fast, accurate information to managers in a decentralised organisation from a centralised set of computer files.

Royal has over 4m records,

Conventional file searching technologies start to creak at half that number. Skilled technicians have to be called in to carry out the programming and its takes computers a long time to work through the files using conventional memory management techniques.

So something radically different had to be found if Royal managers were not to wait hours - or days - for answers to simple queries.

Rod Hoosen, Royal's information manager, reviewed a raft of alternatives before opting for a computer system from Teradata, a young US-based company, whose machine combined three of the most sophisticated computing techniques available today - parallel processing, relational database management and fourth generation languages (see accompanying panel).

Virtually unknown in Europe, Teradata has a series of prestigious clients in the US including Citibank and AT&T.

The Teradata machine installed in Citibank's New York offices comprises 128 microprocessors working together to give a power equal to 130m instructions a second. When complete, experts say, it will be the most powerful computer ever built for business data processing.

Although hardly on that scale, the Royal machine is worth

around \$500,000. What it offers is the capacity to give responses quickly and in easily understandable form to the kind of questions managers want answered. Hoosen, who is an unusual appointment in that he is a technician by training rather than an insurance man, points out: "These regional managers have profit responsibility. They have to have access to the information in their own way and at a time of their choosing."

The machine was delivered in July and the company began work establishing a pilot project, based, Campbell-Hart says, on the Royal's private motor insurance files.

Work began on loading all the data - mundane matters like the number of branches operated by the company - into the Teradata preparatory to initiating the project. Then came the October storm.

The following morning, the team working on the pilot realised that the machine could be used to help with the inevitable flood of claims expected after the winds had done their worst.

Overnight, with the help of Teradata technicians, the appropriate files were loaded into the new computer. As the claims started to come in, several thousand a day, they were fed directly into the Teradata.

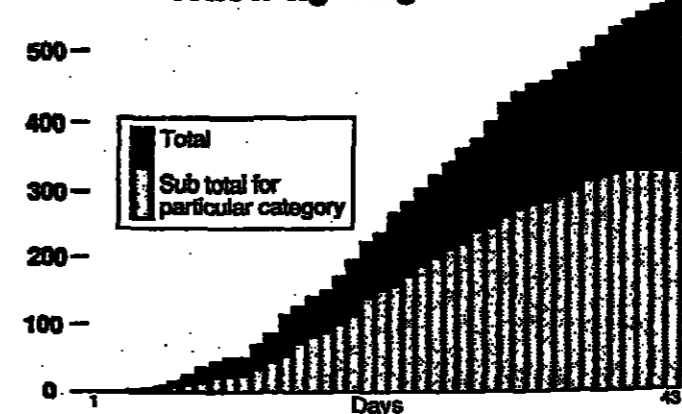
Within hours it was printing out graphs and charts giving the company a good idea of the progress of the claims, the average size of claim and estimates of likely total exposure.

Hoosen is quick to make it clear that all that information could have been dug out of the files using traditional methods but with greater difficulty. "We would have had to work harder to get the same information," he says.

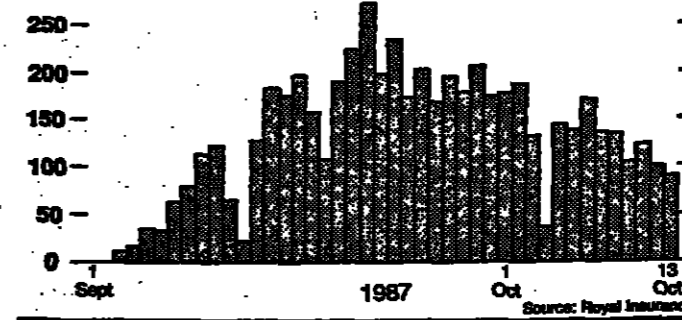
Where the new system is at its best is in giving new views of old data. Although the pilot is only five months old, Hoosen says: "We are already starting to get fresh insights into the make-up of the portfolio. The system gives us the ability to home in on particular points when a first cut provokes questions in your mind."

It is too early to claim unqualified success for Royal's initiative, but based on the October storm experience, everybody at the company's Liverpool head office believes it has a winner.

Cumulative claims pattern following single event



Day-by-day claims pattern Category not disclosed



Royal Insurance UK's latest computer system makes statistics as detailed as these readily available. Previously, it would have been extremely difficult and time-consuming to obtain such figures.

THE TERADATA computer is, technically, a multiprocessor relational database machine. It combines a number of microprocessors operating in parallel to give processing capacities equivalent to, or greater than, conventional mainframes.

The company claims to have solved the problem common to such computers that as each additional processor is added, the power rises by less than a full processor's worth.

Teradata says it achieves a virtually linear increase in power up to 128 processors running together.

Relational database management is the most advanced method of handling information available today.

Where information held in the system is related, that relationship can be explicitly demonstrated.

Royal Insurance, for example, might be interested in relating a particular make of car to a particular kind of claim.

There are a number of relational databases available as computer software - Ingres, Oracle and IBM's DB2 are examples, but the Teradata computer is one of only a very few relational database machines.

One example is manufactured by Britton-Lee of the US, but it is smaller in capacity than the Teradata.

As an IBM "shop", the Royal tested DB2 before opting for Teradata. Figures from the US suggest that it costs \$5 to answer a complex query using Teradata compared with \$65 for IBM running DB2.

The final key to the power of the Teradata machine is the use of what is called a "fourth generation language" to write programs for it.

Fourth generation languages use English like commands to produce programs that the computer can understand.

Teradata uses a fourth generation language called "Intell".

Programs written in Intell have a natural flavour about them - "Give me all the claims between October 14 and October 31 divided into storm claims and others", for example.

Intell communicates with the relational database software embedded in the machine to give the answers in a form managers can understand - graphs, charts or simple tables, rather than the acres of printout provided by mainframe systems.

Management abstracts

The competitive bidding process, by F D Boughton in *Industrial Marketing Management* (US), May/June 87 (3½ pages). From a survey of contractors in the construction industry, reviews factors they consider important in developing a bidding strategy, with company-specific features, such as clearness and detail of specification, heading the list.

Information system subversion: a life-cycle perspective, by E H Rachin in *Information Age* (UK), Jul 87 (4 pages). Identifies the security risks at the different stages of an information system's life cycle, from design to decommission, showing that the development and acceptance phases are the most vulnerable for the insertion of subversive hardware and/or software devices. Asserts that most effort is made to stop information being retrieved from the system, when it would be best to prevent - in the first place - the insertion of those devices for the illegal gathering of information.

Every manager is an information systems manager now, by G M Hoffman in *Information Management* (Netherlands), Dec 86 (6½ pages). Argues that, as soon as any small computerised system is introduced into a department, the manager of that department acquires the responsibilities of an information systems manager, in the sense of selection and justification of new systems, operations, telecommunications, technical support, and personnel management. Examines the elements of each, alerting the manager to the hidden costs of microcomputer systems, security and disaster recovery requirements, the complexities of local area networks, and the need for training.

Sex differences in career management, A Parry in *Human Resource Management* (US), Summer 87 (13½ pages). From a survey, suggests that women are more responsive than men to formal career management and attain maximum effectiveness (perhaps higher than men's) in terms of performance, attitudes, identity and adaptability. On the other hand, shows that women are less effective than men at behaving tactically and playing politics; argues that they must learn how to cope in this area if they are to realise their full potential.

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Year	1900	1910	1920
Population	100,000,000	150,000,000	200,000,000
Area	3,600,000	3,600,000	3,600,000
Population per square mile	27.8	41.7	55.6

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Continued on Page 35

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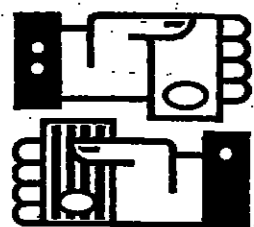
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SECTION III

FINANCIAL TIMES
SURVEY

Despite the stock market crash and traditionally cautious Swiss bankers' scepticism about the industrialised countries' ability to agree economic policies, William

Dullforce sees continuing financial solidity as just one reason why banks are not retrenching.

Prudence and the fall

PRUDENCE PAYS in the long run, is surely the motto engraved on the heart of every true Swiss banker. Prudence was the message from the Big Three Swiss banks - Union Bank of Switzerland, Swiss Bank Corporation and Credit Suisse - at the beginning of the year, when with remarkable synchronism they decided not to raise shareholders' dividends in spite of a respectable growth in their reported profits for 1986.

That move earned them a sharp fall in the prices of their shares during the first half of the year. After the October stock market crash and the uncertainties it has generated about the world economy, their early caution appears as prudent.

Understandably, their public statements have continued to be guarded. They expect to report net profits for 1987 "close to" or "at least as high" as last year's (which analysts read as meaning a comfortable increase in real earnings), but they are forecasting harder times next year.

Their current caution is fed by considerable scepticism about the ability of the big industrialised countries to resolve their differences over economic policy. It also reflects uncertainty about what the stock market crisis portends for the asset management and commission-generating busi-

ness, in which their strength lies. Senior management at one Zurich bank has been instructed to ignore hopes for international economic co-operation in the near future and to plan for continuing instability on financial markets.

Swiss banks took some knocks from the stock market plunge. Difficulties at a couple of smaller banks, on which the Banking Commission was keeping an eye, have been aggravated.

UBS had come off with no more than a "slightly black eye", Mr Nikolaus Senn, chairman of its executive board, said. Increased brokerage fees offset some of the book losses on securities holdings, and no major bank is in serious trouble.

Even if the banks, at the beginning of the year, had not anticipated a crisis, conservative management practices would have cushioned them against it. At the end of 1986 the big banks' debt exposure to Latin America amounted to only 3.5 per cent of total assets and some 50 per cent of (understated) shareholders' equity.

After a nudge from the Banking Commission, the banks made extra provisions equivalent to 20 per cent of the debt. This year provisions have been raised to 30 per cent, at the same time as the banks' exposure has been

Switzerland
BANKING AND FINANCE

reduced by the depreciation of the dollar and sales of some loans.

The uncertainties facing world banking have recently drawn analysts' attention again to hidden reserves, a form of prudence in which the Swiss banks excel.

Swiss National Bank capitalisation figures (shown on page 2) indicate that the disclosed reserves of Swiss banks in general are comfortably above the stipulated minimum.

Noting that it was in the interests of the banks to tolerate exaggerated market estimates of their hidden reserves, Scrimgeour Vickers, part of Citicorp's London operations, came up in a recent study with an educated

guess that they amounted to 74 per cent of UBS's published equity, 63 per cent of SBC's and 52 per cent of Credit Suisse's.

In addition to the protection of substantial provisions and secret reserves, there are two other good reasons why the big banks are not switching to policies of retrenchment.

They are in the middle of substantial investments in third-generation computer technology, which helped to boost the ratio of administrative and personnel costs to gross earnings last year. Practice is to depreciate assets fully in the year in which they are acquired, so that gross margins are likely to shrink for a couple of years. The banks also

expected to hire some 8,000 additional employees this year.

Secondly, the big banks have shown no inclination so far to retreat from the internationalisation of their operations.

If UBS - exercising prudence again - called off its bid for Hill Samuel, the London merchant bank, after a closer study of its activities, SBC staked out a small claim to part of the expanding French market by taking control of Banque Stern, a Paris investment bank, and Ducatel-Duval, a stockbroker.

In fact, recent analyses have highlighted how profoundly the deregulation of national markets and the big banks' decisions to fight for a share of the global

market in London, New York and Tokyo have altered the operating premises of Swiss banking - without necessarily changing the basic conservative instincts of the bankers.

Under the influence of, chiefly US and British, institutional investors, the objective of conserving capital value has had to make room for maximising of yields in assets management, as competition for what was largely a Swiss preserve has stepped up.

A remark earlier this year by Mr Georges Blum, an SBC managing director, that some SFr1,500bn (\$1,100bn) were under management in Switzerland, pierced the secrecy that has traditionally surrounded the

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Graphic: Mark Thomas

size of the funds managed by Swiss banks.

In its recent study, Scrimgeour Vickers estimated that, at the end of 1986, portfolio funds amounted to SFr240bn at UBS, SFr220bn at SBC, and SFr200bn at Credit Suisse.

The sizes were "staggering", Scrimgeour Vickers commented, especially when compared with funds managed by American, British and French international banks. Translated into dollars, UBS managed \$167bn of funds. Comparative figures were: \$62bn for J.P. Morgan, \$19bn (Societe Generale) and \$14bn (Barclays).

When he offered his estimate of portfolio funds managed in Switzerland, Mr Blum cited four strategies the Swiss banks were following to cope with the changes imposed by internationalisation and to meet the foreign challenge. These were:

□ Building up brokerage facilities and offering portfolio services in other financial centres.

□ Greater use of technology for portfolio management, security transactions and trading, to the extent that clients will be able to alter portfolios from their home terminals.

□ Increased efforts to train personnel - the "big three", together with the Zurich investment banks, Julius Baer and Vontobel, have just started the Swiss Banking School; and in Geneva the private banks have inaugurated a banking institute, planned eventually to offer an MBA degree.

□ Keeping Switzerland's reputation free of scandals - the *convention de diligence*, the gentlemen's agreement under which banks undertake to make sure of the identity of their clients, has just been updated.

Mr Blum played down the influence of Swiss bank secrecy, maintenance of which Scrimgeour Vickers saw as the key to the future prosperity of the Swiss banks' fund management.

On the domestic side, the bankers, after the October general election, reopened their campaign for the abandonment of Federal stamp duties on securities transactions. These levies, they complain, undermine Switzerland's capacity to compete as a financial centre.

The bankers have just been strongly backed by an exhaustive comparative study, *La Place Financiere Suisse*, by Professor Philippe Brillard, of the Graduate Institute of European Studies, in Geneva.

Professor Brillard concluded that the all-round efficiency of Swiss banking could be ensured only by modifying the Swiss tax system. He recommended gradual changes in the levies, but in particular the scrapping of discrimination against transactions in foreign securities.

Another controversial item of current debate is the Swiss corporate shares structure, which allows companies to hold off raiders by refusing to register shares. Suizer, the engineering group, is the latest to use this device.

The anomalies in the shares structure were highlighted during the October crash, when prices of non-voting participation certificates widely held by foreign investors tumbled more steeply than prices of registered shares.

Monetary policy has also been focusing greater attention. For some years, the Swiss National Bank has comfortably met its low targets for the growth in the monetary base (giro accounts with the central bank and note circulation). With the help of the upward movement of the Swiss franc and improvements in terms of trade, inflation has been firmly contained.

From the middle of this year, the increase in the money supply started to exceed the very conservative 2 per cent target fixed by the SNB. The SNB increased liquidity somewhat during the October crash, and this month joined other European central banks in lowering by 0.5 per cent its discount and Lombard rates.

Growth in the monetary base this year is expected to be around 3 per cent, rather than the 2 per cent aimed for.

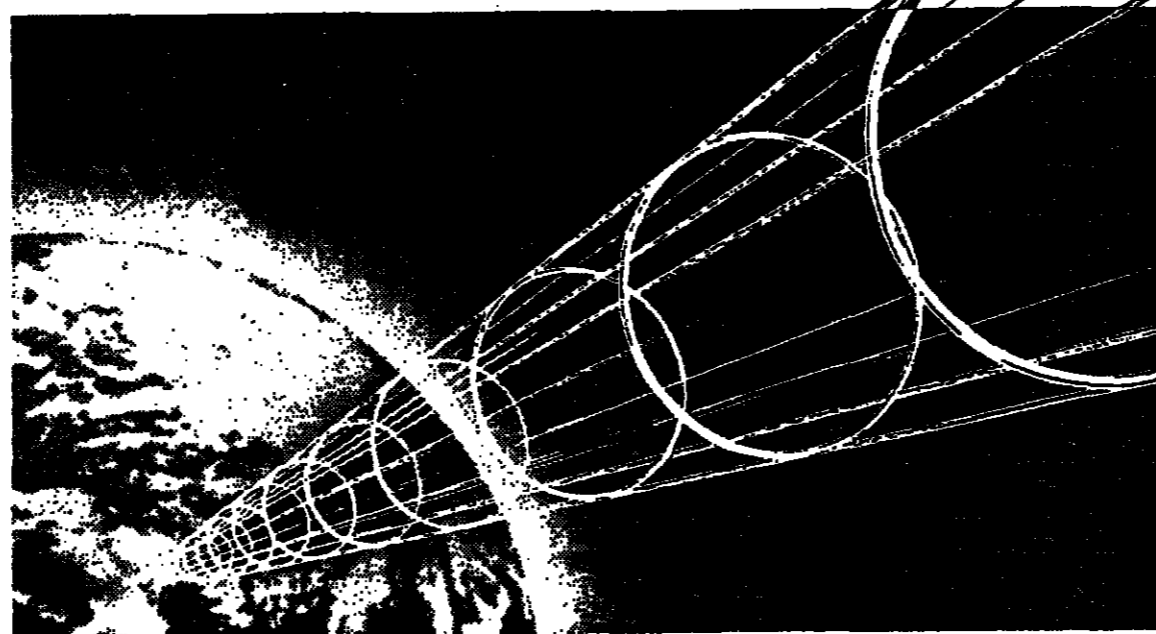
The adjustments to monetary policy are seen as Switzerland's modest contribution to stabilising dollar exchange rates and to expanding demand in Europe, as the US concentrates on cutting its budget deficit.

Nonetheless, they provoke worries about a revival of inflation in bankers and economists, who regard the price stability of the Swiss market in the last few years as an indispensable competitive advantage.

Most probably these worries will be contained as long as the Swiss franc moves in harmony with the Deutsche Mark and other European currencies and is not singled out by speculators as it was in 1978.

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SWISS BANKING 2

John Wicks on the commercial banks

Taking the initiative

AT A time of constant change in the financial sector, Switzerland's banking system is proving that it can more than just cope.

The past 10 years in particular - starting with the cataclysmic "Chiasso affair" of 1977, and taking in political pressures at home, monetary unrest in the world at large and the almost complete transformation of the capital market - have called for major adjustments of banks' policies and philosophies.

The commercial banks of today, whose leadership has been passing increasingly into the hands of a younger and more internationally minded management generation, are very different organisations from those of the late 1970s. They have become more enterprising, while there are now fewer shrill arguments with such regulatory authorities as the Finance Ministry, the Banking Commission and the National Bank. Criticism from abroad - especially from the United States - has been largely stilled by greater Swiss flexibility in helping to curb abuses of banking secrecy.

This new approach has meant that the banks themselves have initiated steps to tackle problems. It was, for example, the Bankers' Association that signed a memorandum of understanding with the Securities and Exchange Commission in 1982 on the obligation of US insider dealing through Swiss banks.

The same body this July renewed - and strengthened - its good-conduct code for a further five years, even though the National Bank was no longer its "partner" in this agreement aimed at client identification and stopping the active promotion of fugitive-fund movements.

The less rigid stance of the banks has, in fact, saved them from further outside pressures. In Switzerland itself, Justice Minister Elisabeth Kopp has dropped plans to review the

Banking Act, just as the electorate had earlier turned down the restrictions foreseen in the "banking motion". Abroad, Washington last month under-

took to refrain from the sort of strong-arm unilateral measures against Switzerland that it had shown in the Marc Rich case.

Swiss banks have also shown themselves much more ready to adapt to new developments in the market place. This has meant a particular boost for off-balance-sheet financial services. While commercial banks continue to extend and modernise their credit operations, growth is now considerably more rapid in the non-interest sector. Commis-

sion-based business has also been the major key to recent expansion in foreign financial centres, chief among them London.

All this has been reflected in bank results. According to the National Bank, net profits of the banking system as a whole rose by 10.7 per cent to a record SF4.1bn last year (excluding finance companies), with total assets up 9 per cent to SF905.1bn. The commercial banks continued to be dominated by the Big Five - Union Bank of

Switzerland, Swiss Bank Corporation, Credit Suisse, Swiss Volksbank and Bank Leu - which accounted for well over half the balance-sheet total and the overall net profits.

Business has continued to grow this year. In terms of published assets, the National Bank reports that the balance sheets of 71 banks (the Big Five plus cantonal and regional entities) were 10 per cent higher at the end of September than a year earlier; this, despite the marked fall in the dollar, though fiduciary funds continued to decline.

Balance sheets are only one indication of business development. With the increasing stress on non-interest activities, they are growing rather less rapidly than net earnings. As far as these are concerned, initial indications from leading banks are that 1987 profits should be as good as, if not better than, those for last year.

The bankers are, however, cautious about forecasting what might happen in 1988. The stock market crash is of the greatest possible significance to the banks, who act as stockbrokers,

issuing houses and portfolio managers, as well as themselves being major participants in the capital market.

Additionally, of course, the less sanguine expectations for next year's economic growth could mean a general drop in demand for banking services. "We reckon with harder times in 1988," says SBC chief executive Mr Walter Frehner.

The mood at present is one of wait-and-see. In the stock markets, the banks themselves cannot do much to alter things, apart from using existing provisions to carry out a downward re-valuation of securities held. For the time being, there are no really serious problems facing the commercial banks at home, other than the unwelcome decision to grant interest on post office accounts; and the exodus of investors from shares has at

least meant more money on hand with the banks or going into such fixed-interest paper as the banks' own medium-term notes.

This is far from meaning that the Swiss financial sector has completed its transformation. New liquidity rules come into force on January 1, for example, which enforce the availability of emergency in-house funds to cover any run on a bank before the existing "fire brigade" scheme can come into effect.

The Banking Commission is pressing for an extension of the Banking Act to cover finance companies and - of greater importance for the banks - for equity-backing requirements in respect of off-balance-sheet commitments. The commission also seems to be making more use of its rights in acting against "unfit management".

In parliament, an anti-insider clause is growing closer to inclusion in the penal code, while the Government and a States Council commission want a change in the law governing banks' proxy votes at shareholders' meetings.

The banks also continue to carry out voluntary changes. Only last month, for instance, the big banks decided to open their permanent syndicate for Swiss franc foreign bond issues, while the Association of Swiss Cantonal Banks spoke up in favour of greater co-ordination of its members' operations.

Though 1988 may turn out to be a "harder year", the commercial banks seem in good shape to handle such difficulties as may arise. This realisation ought, in time, to lead to an improvement of the current low level of the share index for listed banks.

Capitalisation of Swiss banks

	Big Five* (in SFm at end of the year)				All banks			
	1984	1985	1986	1987	1984	1985	1986	1987
Paid-up equity	6,706	7,706	8,314	17,224	18,955	20,597		
Capital callable from shareholders of co-operative banks	—	—	—	1,237	1,314	1,366		
Local authority guarantees to district savings banks	—	—	—	101	106	110		
Open reserves	12,918	15,582	17,781	22,805	26,134	28,583		
Latent reserves†	4,319	4,754	4,889	6,744	7,521	8,100		
Subordinated debt	2,214	2,758	3,242	2,824	3,250	3,840		
Undistributed profits	46	54	60	208	335	376		
Total capitalisation	28,203	30,856	34,286	50,743	57,615	63,954		
Stipulated minimum capital	24,670	27,323	32,417	43,111	47,257	53,273		

*Bank Leu, Credit Suisse, Swiss Bank Corporation, Swiss Volksbank, Union Bank of Switzerland.

†Reserves disclosed to tax authorities but not published by individual banks; they do not include undisclosed hidden reserves.

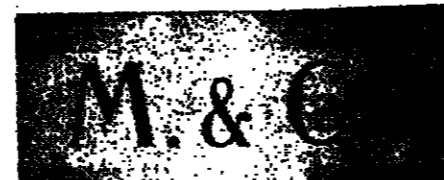
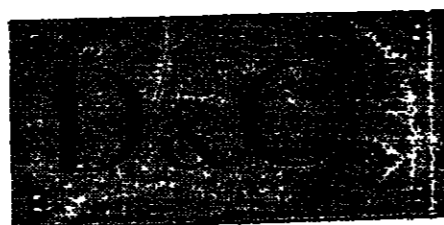
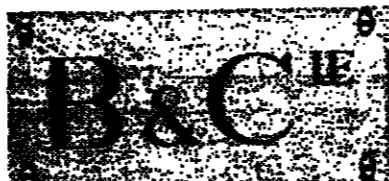
Source: Swiss National Bank

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Foreign banks

Bank-like companies' striking increase

SWITZERLAND CONTINUES to draw a steady stream of foreign financial institutions, attracted by its reputation as a safe haven for foreign funds and its still profitable bond market.

The latest figures published by the Association of Foreign Banks in Switzerland show that the number of foreign financial institutions had increased to 215 by the end of 1986, compared with 122 ten years before.

Yet more striking is the increase, within this total, in the number of bank-like finance companies. These increased from 81 at the end of 1985 to 90 by the end of last year, compared with only 24 at the end of 1976.

Bank-like finance companies have been the greatest growth area, since they are exempt from the fairly severe Swiss capital requirements for banks. The reason is that they do not offer themselves to the public as depositaries, but are defined rather as involved in selected forms of capital trading. This makes them much easier to set up than fully-fledged banks.

The main motivation for foreign banks to set up in Switzerland is the management of funds for private clients. Commerzbank, for instance, set up a branch in Zurich specifically for this purpose two-and-a-half years ago and is about to establish a further office in Geneva.

Despite the growing reputation of Luxembourg as an alternative haven for private funds, Mr Wolfgang Perwitz, general manager of Commerzbank (Schweiz) continue to set much store by Switzerland's historical role as a secure and discreet financial centre. He says he is not aware of any clients who have chosen to switch funds from Switzerland to Luxembourg.

The predominance of investment advice and management as an activity of the foreign banks is reflected in the relatively small growth in their balance sheets over the last few years. At the end of 1986, the total for all foreign-controlled financial institutions' balance sheets was only 12.9 per cent of the aggregate balance sheet of the Swiss banking system. This compared with 11.4 per cent in 1976, and 14.1 per cent in 1964.

The bank-like finance companies in particular tend to be small institutions. For instance, Association of Foreign Banks statistics show that, of 112 Swiss bank-like companies recorded during 1985, almost three-quarters showed total assets smaller than SF100m.

In addition to private client business, a number of foreign banks are involved in foreign exchange dealing, although this tends to be a sideline. Their involvement in commercial lending is usually minimal.

Aside from these services, the foreign banks have come to play a significant role in the foreign bond market. The Japanese, for instance, have introduced a stream of their clients to the market.

Foreign banks play a significant role in the foreign bond market, but tend to steer clear of lead-management

They have, however, tended to steer clear of lead-management roles, although some of the subsidiaries of the banks have lead-managed straight bond issues for the companies for whom they act as guarantors in the Japanese domestic bond market.

But the great bulk of the issues for Japanese borrowers - a sector which usually accounts for around 30 per cent of total issuing volume - have been equity-related bonds, and these have very rarely been led by the Japanese securities houses. Rather, these houses have passed on the lead-management position to one of the Big Three Swiss banks - Union Bank of Switzerland, Credit Suisse, or Swiss Bank Corporation - which control the main bond issuing syndicates.

The reason for this appears to have been fear among the Japanese securities houses that, unless they did this, the Swiss banks might withdraw share buying orders from their offices in Tokyo. However, this worry seems to be diminishing now that a larger number of non-Japanese banks have gained seats on the Tokyo stock exchange.

Some of the Swiss banks are now applying for seats. It may be significant in the context of Swiss-Japanese financial reciprocity that Daiwa and Nomura became the first of the Japanese securities houses to apply for banking licences in Switzerland at the end of last month.

Other foreign banks active in the foreign bond market are Handelsbank NatWest, part of the National Westminster Bank, which runs the second largest bond issuing syndicate, and Nord

Finanz-Bank, owned by a Scandinavian consortium, which runs another syndicate.

However, the role of these banks in the foreign bond market could become less significant as their syndicates have become less cohesive over the last few years - this year, for instance, Banca della Svizzera Italiana defaulted to the main bond issuing syndicate from Handelsbank's group.

At the same time, the market share of the foreign banks which do not run Swiss-style syndicates but put together underwriting groups on an *ad hoc* basis, such as the US houses and Warburg Solicit, has been increasing.

The German banks have played a relatively low key role in the foreign bond market, despite the inroads made by the Swiss banks - most notably CSFB-Effektenbank - in their own domestic bond market.

However, there has been speculation that Deutsche Bank (Swiss) may start to play a much bigger role if it decides to become the first foreign bank to join the main issuing syndicate, following a relaxation in its rules at the end of last month.

Deutsche Bank in August won the right to lead-manage an issue for its parent company within the framework of the big syndicate. This was described at the time as designed to increase reciprocity between the Swiss and German markets.

Difficulties in obtaining skilled staff continue to be a big worry among the foreign banks, because of Switzerland's stiff restrictions on work permits. Perwitz, of Commerzbank, says that, although he has found it possible to recruit fund managers in Zurich, "it is practically impossible to find back office staff".

The staff shortage has contributed to an upward spiral in salaries, which is said to be even worse in Geneva than in Zurich, because of the concentration of international institutions there.

The pressure created by the scarcity of appropriate personnel, coming on top of Switzerland's in any case very high cost of living, makes setting up a new operation an extremely costly business.

Mr Guy Huet, managing director of Morgan Stanley in Zurich, who has been busily recruiting staff this year for a trading operation which he set up in February, complains that salary levels are now twice as high in Switzerland as in New York.

Clare Pearson

CRM

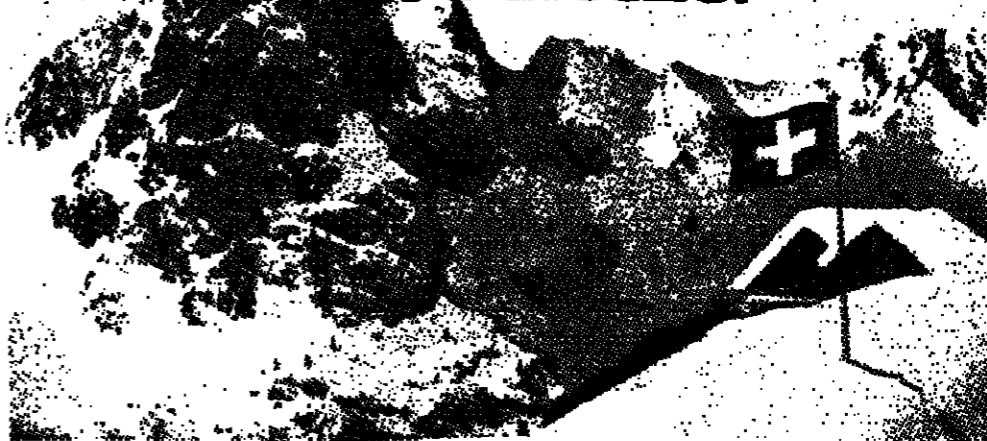
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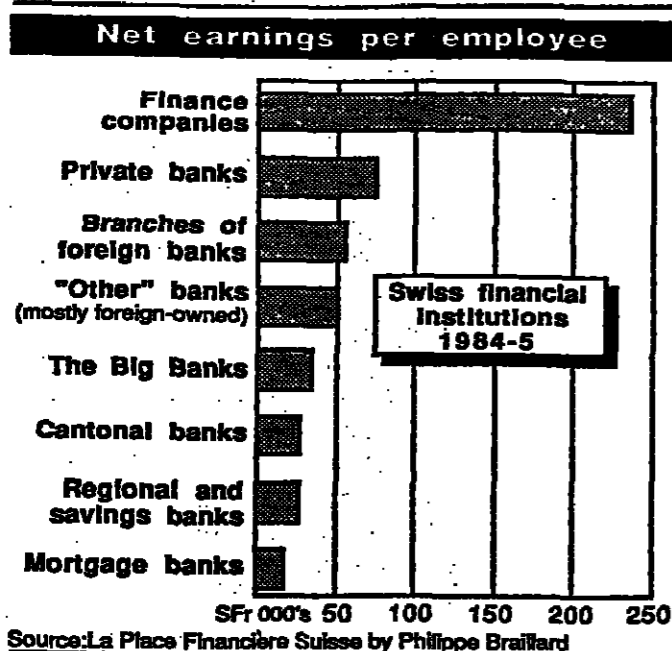
SWISS BANKING 3

Profile: Dr Markus Lusser

New man may be tested early



Markus Lusser



Finance companies

Variety is an obstacle to supervision

SWITZERLAND'S proliferating finance companies may soon have their tails nipped. The Banking Commission, the Swiss National Bank and many Swiss bankers want them brought under tighter control.

They are increasingly seen as a way for foreign rivals, including banks, to circumvent reciprocity rules and to compete directly with Swiss banks in Switzerland without being subjected to regulations on capital and liquidity ratios.

However, would-be supervisors are having trouble, because the finance companies vary so widely in size and the nature of their operations that it is nearly impossible to categorise them.

Finance companies, established under Swiss corporate law, are subject to the Banking Act, if they seek deposits from the public. Only four do so.

Others, whose balance sheets are of a banking nature, report their statistics to the Swiss National Bank in accordance with two articles of the Banking Act but are not otherwise covered by the Act.

Registering with the SNB allows the finance companies to participate as co-managers in issues of Swiss franc bonds for foreign borrowers, covered by SNB capital export rules. They are not, however, subject to supervision by the Banking Commission.

These "bank-like" finance companies grew in number from 58 in 1977 to 115 last year, and the Banking Commission estimates there will be 133 by the end of this year. Almost all the new ones are owned by foreigners, the Japanese influx having been particularly strong.

In addition, there is an unrecorded number of finance companies - "hundreds" the commission says - who do not report to the SNB.

The Commission estimates that roughly one-third of the finance companies have Swiss owners, one-third are controlled by Japanese and the remaining third by other foreigners.

Finance companies covered by the statistics exhibit a bewildering spectrum of size and activity. The biggest is Renault Finance in Lausanne, with assets of some Sfr6bn. Essentially a holding company for Renault of France, it also conducts financial operations on its own account.

Sumitomo International Finance, in Zug, operates with a balance sheet of around Sfr900m. At the other end of the scale last year, 16 finance companies reported assets of Sfr10m or less, two having no more than Sfr1m.

A characteristic of them all is that they carry out banking operations in competition with the banks proper, sometimes in partnership with individual banks. A survey conducted this year by the Association of Foreign Banks, which counts 44 finance companies among its members, found that they were engaged in practically all types

of banking operations, apart from deposit-taking. The range covered securities business, including underwriting, credits, investment management, foreign exchange trading and other specialities.

Most foreign securities houses operating on the Swiss market have adopted finance company form. A recent count found 19 US brokers using this form.

Discussion about the finance companies has centred on three issues - unfair competition, circumvention of the reciprocity principle and their freedom from banking supervision.

One advantage enjoyed by the finance companies is illustrated in the table above. Not being tied to retail banking, they can operate with relatively few staff and achieve a far superior level of earnings per employee.

Statistically, it is more difficult to substantiate the argument that, because they are not subject to bank supervision and thereby to keeping fixed capital ratios, the finance companies represent bigger risks.

Foreign Banks found that the finance companies' disclosed capital and reserves ratios, averaging 13 per cent of total assets, were substantially higher than those of the banks - 7.5 per cent for all banks and 10.6 per cent for the foreign-controlled banks.

Averages, of course, can hide deficiencies in individual finance companies. The Banking Commission argues that, because their activities are often closely interwoven with those of the banks, the sudden collapse of an unsupervised finance company could set off a chain reaction among banks.

Reciprocity is a particularly sensitive issue. Japanese banks and security houses, for instance, can operate freely in Switzerland as finance companies, while Swiss banks have to hammer at the doors of the Japanese authorities to obtain permits to operate in Japan.

That comparison gives too straightforward a sheen to the issue. Foreign finance companies bring interesting business to Swiss banks. With their liberal outlook, the Swiss appreciate the importance of foreign competition in stimulating the efficiency of Switzerland as a financial centre.

But the Banking Commission and the SNB see a growing element of insecurity and risk in the proliferation of unsupervised finance companies, some of which have substantial business volumes.

The Commission wants to extend its supervision at least to the larger finance companies by imposing on them the requirement to obtain banking licences.

This could be effected by adapting regulations, rather than by amending the Banking Act. It could still take time. Swiss procedures are slow and the process of "consultation" has barely started.

William Dufforce

THE STYLE, if not the policies, will change when Dr Markus Lusser takes over from Mr Pierre Languetin as President of the Swiss National Bank (SNB) next May.

That at least is the view commonly held by Swiss bankers. But at 56 Dr Lusser can look forward to an eight-year tenure, long enough to leave his mark on Swiss banking.

As an avid reader who cannot pass a bookshop without stepping in to make a purchase, he might also remind the bankers of the book critic's adage that style cannot be divorced from content. The bankers could be in for some surprises.

As the SNB moves into what may be a difficult year, Dr Lusser's mettle could be put to an early test. Under one not improbable scenario, the Swiss franc will appreciate further in the next few months and the central bank will come under increasing pressure to take a more expansionary monetary stance.

Under such circumstances Dr Lusser's trenchant style could influence markets' perceptions of the decisions taken. His German is more forthright than the carefully honed French of Mr Languetin.

Most bankers welcome Dr Lusser's appointment, but add some ambiguous riders. While hoping for firm guidelines from the SNB, they also voice the caveat that it should stick to its last of monetary policy, leave supervision of the banks to the Federal Bank Commission and not interfere with their business.

Dr Lusser agrees that it is not up to the SNB to monitor individual banks, but points out that monetary policy can only be effectively pursued through a

well-organised banking system and efficient markets. "I shall certainly tell the banks when we think the markets are not playing their part," he said in a recent interview.

Already, as SNB vice-president, Dr Lusser has spoken out about what he regards as some outdated self-regulating arrangements in Swiss banking. Not that he is promising or threatening change. On the contrary, he stresses the continuity embedded in the central bank's practice of entrusting policy to a three-man directorate, in which the president is only *primus inter pares*.

Swiss monetary policy is based on control of the monetary base (giro deposits and banknotes in circulation) to keep prices stable. This policy was finally consecrated in 1980 under Dr Fritz Leutwiler, then central bank chief, after a turbulent period following the 1978 exchange rate crisis.

It was Dr Leutwiler who brought Dr Lusser into the SNB directorate in 1981 - the first time the central bank had recruited from the Bankers' Association for such a top job. The two had worked closely on the *convention de diligence*, the gentlemen's agreement on bank conduct put together in 1977 after the fraud unveiled at Credit Suisse's Chiasso branch.

Dr Lusser's background and qualifications for the job are

incontestable. He comes from the small, mountain canton of Uri, a founding member of the Swiss Confederation and home of William Tell.

Trained as a lawyer, he spent 20 years at the Bankers' Association, rising to managing director. He was involved in the development of Eurocheques and became chairman of Eurocard, Switzerland.

He does not see himself in the kind of international role played by Dr Leutwiler, who was chairman of the Bank for International Settlements when the international debt crisis erupted in 1982 and who had to contend in 1978 with a rush of foreign funds into Swiss franc holdings.

The franc is again under pressure, but this time it is not alone. Investors and speculators are turning also to the yen, Deutsche Mark and even other European currencies. "I am very happy if the franc does not assume a special role," Dr Lusser says.

Nevertheless, he foresees problems. He assumes that currency fluctuations will continue and that the effects of the stock market crash in October have not yet run their course.

These elements coincide with the introduction of new central bank prescriptions for bank liquidity. The first two factors would call for the injection of more liquidity by the SNB. The last means that the banks will need to hold less liquidity,

although they will not change current practice overnight.

In any case, the SNB, whose 2 per cent target for the growth in the monetary base will probably already be overshot by 1 per cent this year, can expect pressure to be more expansionary in 1988.

For the SNB, much would then depend on how other European central banks reacted to similar pressures from their politicians and industrialists. "It would help us all, if the big three [the US, Japan and West Germany] co-ordinated their economic policies better," Dr Lusser comments.

It is widely assumed abroad that Switzerland, tacitly at any rate, pegs the franc to the Deutsche Mark. The SNB has always denied this. The SNB does not intervene on exchange markets to keep the two currencies in line, Mr Lusser says, but "we profit from the similarity of our central bank policies".

Both the SNB and the Bundesbank give priority to achieving price stability. "The question is whether we can persuade all the industrialised countries that this remains the goal," Dr Lusser adds.

He is less concerned about the effect of the October stock market collapse on Swiss banking. Some banks suffered losses, but none was heavily affected and no major problems have arisen. Dr Lusser sees no reason to rush into re-regulation.

Recalling the depth of the sin-

gle-day price collapses in October, he suggests that the stock exchanges might consider closing when an agreed limit for price changes is reached.

Capital cover for the expanding securities business and other off-balance-sheet operations of the banks has been a concern of the SNB for some time.

The good conservative Swiss practice of borrowing no more than half the capital placed in securities should become a common precept, Dr Lusser suggests. Otherwise, he believes Swiss banks should follow the prescriptions for capital ratios that will emerge from the Cooke committee working under the BIS.

Under Dr Lusser, the SNB will continue to be an ally of the banks in seeking revision of the government stamp duty on transactions in securities. But he appreciates the standpoint of Mr Otto Stich, the Finance Minister, that an alternative source of tax revenue needs to be found. "The President of the SNB must also want to see a balanced [state] budget," he adds.

As a first step, Dr Lusser thinks the Government could ease the levy on short-term paper, up to maturities on one year. This could gradually create the money market Switzerland now lacks. It would also offer the Confederation and the cantons more flexible financing, letting them distribute their debt between long-term bonds and short-term instruments.

Promoting Switzerland as a financial centre means encouraging foreign institutions to set up there, Dr Lusser is sure. The Swiss franc bond market, still one of the most important in the world, is open to foreigners.

Practically the only remaining restriction on the Swiss capital markets is the requirement that managers of franc bond issues be domiciled in Switzerland. This restriction relies on co-operation from other central banks. It must be maintained, as long as there is stamp duty on Swiss franc bond operations, Dr Lusser says. Otherwise the whole business would move outside Switzerland.

But other countries are progressively deregulating their capital exports and, sooner or later, "we will find that we cannot depend on co-operation from other central banks [in maintaining the restriction]."

The SNB has already warned the Federal Government that it must be ready to act, he says.

William Dufforce

The factors that make Switzerland a leading financial market

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Bank Leu



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Union Bank of Switzerland

SWISS BANKING 4

Profile: Banca della Svizzera Italiana

London milestone for growing Lugano bank

LAST MONTH Banca della Svizzera Italiana (BSI) started up operations at a new branch in London. This marks a further step in a long process of expansion in the Lugano-based bank, which feels it still has far to go.

BSI has come a long way since its foundation in 1853, when its main aim was to finance local investments in preparation for the opening of the Gotthard rail tunnel.

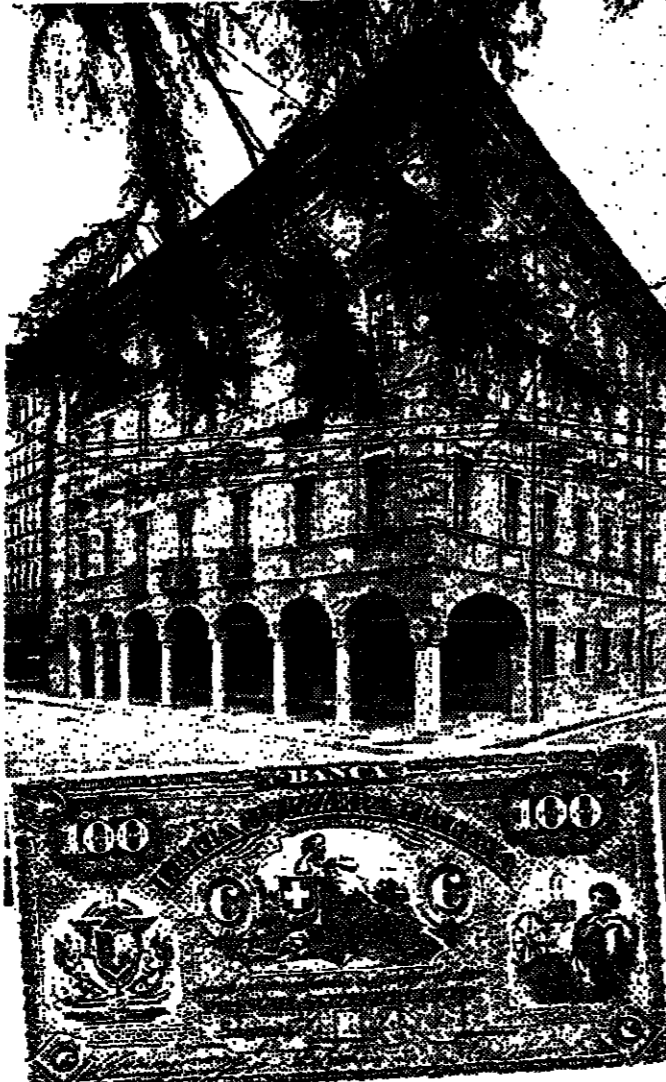
As its name suggests, BSI is the biggest bank with headquarters in Italian-speaking southern Switzerland. Originally formed by leading Swiss banks and Banco Generale di Roma, it played a key role in the development of Canton Ticino from the start, even issuing the local banknotes up until 1907.

Its growth over the past 20 years, during which published assets have risen tenfold to over Sfr5.8bn, has reflected not least the rapid strengthening of the Ticinese economy.

With some 19 branches and agencies in the canton - apart from a 34 per cent shareholding in the Fidinam Trust Group, of Lugano - BSI is far from having left home. For all that, it has been obvious for years now that there are clearly-defined limits to growth there. Ticino has only 270,000 inhabitants - and over 250 bank outlets - so there is hardly a need for new branches.

Over and above this, local business is expanding more slowly than in the 1960s and 70s. Ticino is no longer quite so fashionable as a retreat for the wealthy; it has not had much success in building up an industrial base (despite efforts by a BSI-backed industrial promotion unit); and greater stability in neighbouring Italy has sharply reduced the northward flow of fugitive monies.

BSI realised long ago that it needed a presence north of the Alps. It opened a Zurich branch in 1935, and became the first southern Swiss bank with a seat on the stock exchange. More recently, it bought Adler Bank (now Adler Change) in Basle, Banque Romande in Geneva and



BSI's headquarters in Lugano... and a note issued by the bank in 1853, ten years after its foundation

thrust will be in other parts of the country.

According to the chief executive, Dr Giorgio Ghiringhelli, its national strategy outside the home canton foresees growth both on and off the balance sheet.

On the one hand, BSI wants to develop lending to what it calls "good-quality, medium-sized companies," as well as its trade financing operations and Domus Bank's consumer credit and consumer-goods leasing activities.

On the other hand, non-interest business is to grow, particularly in the fields of portfolio management for institutional clients and foreign exchange.

Specific projects in hand within Switzerland in this connection are the creation next year of a financial-analyst team in Zurich, a foreign-exchange trading desk in Geneva (one was recently opened in Zurich), and a BSI branch in Geneva. This last unit is to concentrate on international business, while Banque Romande takes on the character of a regional bank.

Its international strategy, says Dr Ghiringhelli, will be targeted on three main centres. One of these is New York, where the branch recently moved to new premises with twice the space.

The plan here is fundamentally to build up business in the sectors where the branch is already active: money market, foreign exchange and trade financing services. (The branch also has a "very limited" credit portfolio and does some portfolio management.) New York, where BSI additionally has an international banking facility, is now also to be the home of a regional office to look after the bank's operations in Latin America.

Another major foreign arm of

the group is that of the new London branch. This will be active in three main areas - money market, foreign exchange business and trade financing, and portfolio management. There will also, but again only to a "very limited" extent, be some Eurobond activity there.

The remaining geographical region that seems promising to the Lugano bank is the Far East. It is considering opening a licensed deposit-taker subsidiary in Hong Kong in 1988, and has been looking at the potential of Japanese operations over and above its existing Tokyo rep office and a small service company helping European firms enter the Japanese market. For the time being, though, BSI will not be applying for a securities trading licence in Tokyo.

At present, there are no concrete plans elsewhere. However, Dr Ghiringhelli indicates that BSI - like some other Swiss banks - will be "looking at how to tackle the Italian market" if and when the expected liberalisation process takes place. Given the proximity to the frontier and the common language, the bank would seem to be a natural for this market, where it was active in the early years of its existence.

As far as its own foreign shareholder is concerned, Lugano headquarters does not seem unduly nervous about the current unfriendly takeover bid by Bank of New York for Irving Trust. The Americans are represented by three directors on the 12-man board and one member of the three-strong executive committee, but with only 25 per cent of voting rights this biggest single shareholder cannot be said to control BSI.

John Wicks

Lessons are being learned in the wake of the stock market's fall

Foreign influence is confirmed

THE SWISS stock market suffered as heavily as Wall Street or London from the October crash, the Swiss Bank Corporation General Index tumbling by 30 per cent in one month from its peak on October 5.

In the aftermath of uncertainty, while world exchanges were waiting for the Reagan administration and the Congress to sort out the US budget problem and for the seven main industrialised countries to give policy signals, lessons were being only tentatively drawn from the Swiss experience.

On the technical handling of the crash in Zurich and Geneva, the most common judgment seems to be that it was a qualified success.

Improvisation by the Zurich exchange committee at early morning meetings during the crucial two weeks produced some controversial decisions but kept the system running. Sessions were shortened for the 25 leading stocks which are traded continuously. The rule calling for a stop to trading in a stock whose price has moved more than 10 per cent in a session was temporarily dropped.

"Trading back", the possibility of returning to a stock passed when calling the list of non-continuously traded shares was withdrawn. Some dealers blame this enforced "instantaneous" trading for the wild price swings in some stocks from one day to another.

Back offices in one or two banks reportedly clogged up the volume but the whole of the Swiss exchanges are reckoned to have preserved their



On the Geneva stock exchange (as also at Zurich), technical handling of the crash was deemed a qualified success

The crisis brought an especially severe setback for stock prices, which had climbed less than 11 per cent in the first nine months

reputation for quick execution of deals. Some big foreign investors nevertheless complained that they were not able to place orders.

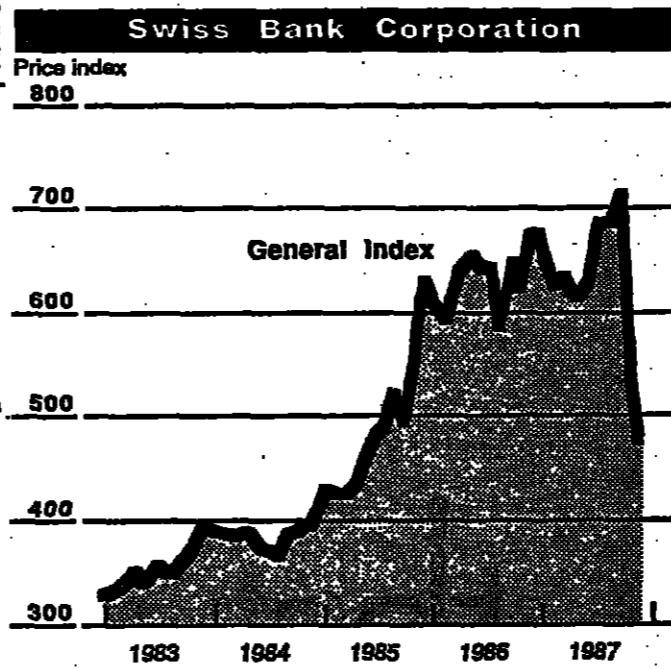
The extent of foreign influence on the Swiss market, vaguely acknowledged beforehand, was emphatically confirmed. For the past couple of years the number of transactions in foreign shares and bonds has surpassed that of Swiss stocks, although bourse statistics provide no breakdown by value and it is generally assumed that bigger deals are struck in Swiss stocks.

However, it was the growing foreign involvement in both types of stock, even more in Swiss shares, that was demonstrated during October. The plunge in Zurich was triggered by foreign institutions and portfolio managers wanting to go liquid after Wall Street's Black Monday.

Difficulties arose for those trying to pull out of stocks other than the top 20 or so which account for some three-quarters of total market capitalisation and are continuously traded.

Prices of non-voting participation certificates, which Swiss companies have issued in large quantities during the bull market and which were mostly held by foreigners, collapsed faster than prices of registered and bearer shares.

A second selling wave hit the Swiss exchanges a week after the first provoked by foreign institutions. The second was prompted largely by worries about the effect of the declining dollar on Swiss export performance. However, it also brought to the surface the plight of newly established, heavily geared local



securities houses, whose low equity bases forced them to start selling as prices continued to plunge.

Some of these had been founded by former employees of the big banks, keen to set up on their own and to exploit the opportunities for fund and portfolio managing under the bull market. Some had borrowed heavily and were particularly active in the market for bonds convertible into Japanese equities.

For Swiss stock prices the October crisis brought an especially severe setback, because - again under the influence of foreign hesitation - they had climbed by less than 11 per cent during the first nine months of the year, well below Wall Street and London growth rates. By the end of October the SBC General Index was 18 per cent below its year-end level.

The Zurich stock exchange reported a turnover of Sfr64.4bn in October, up by 63 per cent from October last year, and a 40 per cent increase in the number of "prices paid". Its figures show a decline in the market capitalisation of Swiss shares, from Sfr209bn at the end of 1986 to Sfr187bn on October 31. The fall

tors seeking to pull out of the smaller stocks were baulked by, among other things, a lack of liquidity on the market.

A coincidence of recent attempts to take over Swiss companies, and the collapse in prices of participation certificates during October, has brought to a head debate about the division of Swiss corporate equity capital between registered and bearer shares with voting rights and the non-voting certificates.

To protect their national identity, most Swiss companies have statutes under which they register only shares held by Swiss citizens, thereby limiting voting rights. Some can even limit the number of voting shares registered under one name.

Capital requirements are to a large extent met by issuing bearer shares with reduced voting rights and non-voting participation certificates. Foreigners invest in these papers.

The system conflicts with the requirement to have easily negotiable paper on stock exchanges, and has been an increasing source of irritation to foreign investors, not least the pension funds.

Last month the situation crystallised into an attempt to launch a referendum on shareholders' rights in the canton of Zurich. Behind the move is Mr Karl Schwenk, owner of the Denner discount retail chain, whose prolonged bid to acquire control of Uegeo, a rival chain, has been thwarted by that company's refusal to register holders of shares it believed were acting for Denner.

Mr Schwenk now has to collect

enough signatures to force through a referendum. He argues that a company board's right to approve registration curtails market activities, thereby influencing share prices and affecting investors' rightful interests.

A parliamentary committee, studying amendments to Swiss corporate law, has also taken up the question of shares registration.

Currently market operators of all kinds on the Swiss exchanges appear to be happy to take a pause for reflection. A crucial question for the Swiss banks and other fund managers centres on the foreign investors, in particular the big institutions who had "discovered" the Swiss market over the past three years.

Will the foreigners return in force after their precipitate withdrawal in October? Will the advantage of a strong Swiss franc and the solidity of the big Swiss companies offset the pain of the losses made on non-voting paper and the resentment at Swiss restrictive practices?

There is in any case no indication so far that the Swiss have stopped wooing foreign investors. Plans for automated settling and computer-assisted trading, though delayed, are moving steadily ahead.

A new Swiss share index, reputedly aiming at filling the lack of a universally accepted Swiss index, has been started. It precedes the launching next year of a Swiss Options and Financial Futures Exchange.

William Dullforce

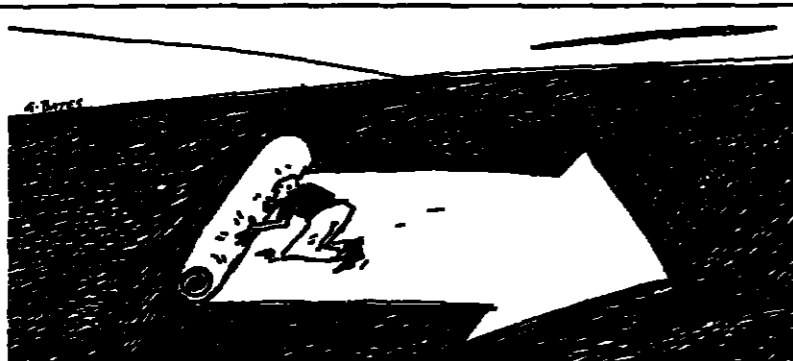
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SWISS BANKING 5

Futures and options

Soffex will integrate trading and clearing

SOFFEX, THE fully automated, computer-based Swiss Options and Financial Futures Exchange, is due to start business next year. It represents a page by the Swiss bourses and banks of their determination to keep a major European securities trading centre in Switzerland.

The five big banks and the three biggest stock exchanges - Zurich, Geneva and Basle - have invested SFr65m (\$48m) to equip Soffex. That does not include staffing costs and spending on back offices by more than 50 members, which probably averages around SFr1m each.

Target date for the start of trading is March 1. There may be some slippage in the timetable - not all the members may be ready - but the simulation phase is scheduled to start in January. Fast development abroad of instruments for trading in shares options and financial futures was finally seen as a challenge for Switzerland, and the decision to act was taken at the end of 1985.

Both foreign and domestic pension funds had stressed their interest in Swiss options and futures. Optimising yields was taking precedence over preserving capital, Mr Rudolf Mueller, chairman of the Soffex executive board, explained.

Banks were competing for the growing part of savings under the control of institutional investors whose criteria differed from those of private investors.

"For Switzerland to maintain its superiority in international fund managing, our bankers and investment managers had to be given the modern instruments available to their rivals," Mr Mueller added.

A private company with an initial paid-up capital of SFr5m was set up by the Tripartite Bourse Association, Union Bank of Switzerland, Swiss Bank Corporation, Credit Suisse, Swiss Volksbank and Bank Leu. Arthur Andersen and Company was commissioned as project manager.

The result will be a tailor-made entirely computerised exchange in which trading will be effected through screens on an "electronic floor" covering the whole of Switzerland. The software allows orders and quotations to be entered directly into

the trading system by use of keyboard and screen.

Soffex will differ from existing US and British futures exchanges by integrating the trading and clearing operations in a single automated system. The Frankfurt stock exchange is already studying whether it can use the Swiss software for its own new options and futures market.

Ensuring liquidity has been a matter of special concern. Liquidity on the Swiss stock markets is at a substantially lower level than that effective on American exchanges, and Swiss shares have high market prices.

Contracts of 100 shares common elsewhere would not work. Accordingly, Soffex will operate with 5-share contracts.

The Frankfurt stock exchange is already studying the Swiss software

Speculation started in Zurich that Soffex might be postponed after the October stock market crash and the accusations that programme trading on futures markets had exacerbated price fluctuations in New York. This was strongly denied by Mr Otto Naegeli, the project's managing director.

A measured start had, in any case, been planned for the exchange. It will open with options contracts on bearer shares and participation certificates of 11 Swiss stocks.

Four are banks - UBS, SBC, Credit Suisse and Volksbank. Two are food stocks, Nestle and Jacobs Suchard. Join the three big chemical companies, Ciba-Geigy, Sandoz and Hoffmann-La Roche; and the 11 is made up with two insurance stocks, Swiss Re and Zurich.

An index contract is envisaged in a second step to be followed eventually by financial futures. No timing has been given for these moves, so, as Mr Naegeli says, the exchange has time to look at the impact of futures trading on the recent stock market shake-out.

William Dufforce

SWITZERLAND IS a country where not only banks are thick on the ground. There are also no fewer than eight stock exchanges, which in a country of fewer than 6.5m inhabitants must be a per-capita record.

While only Zurich and, to a lesser extent, Geneva and Basle can be considered major-league players, some of the smaller bourses have been proving their *raison d'être* for a hundred years or more.

One of these is that of Bern. Although the federal capital is not one of the country's leading commercial or industrial centres, it has a banking tradition that goes back to the early 16th century. It was the home of the first Swiss savings banks a few decades later, and of the first cantonal bank in the 1830s.

It is still the headquarters of the Swiss Volksbank, one of the Big Five. Shortly after the formation of the Association of Bernese Banks, in 1880, this body set up the Berner Boersenverein for the promotion of trading in bills of exchange and securities.

The new stock exchange opened in 1885, in a very small way of business. Nor did it grow to any extent in the years that followed before the first world war, it was running with an average of barely 10 trades per day. It was not until relatively recently that things started to live up.

This has been the case particularly since about the mid-1970s, with the city's securities turnover having increased in only the past 12 years by something

like eight-fold to its recent (pre-crash) level of a good SFr400m a month.

This is not wholly comparable with the figures of other Swiss exchanges - Zurich and Geneva, for instance, reckon all securities transactions taking place in their respective cantons - but it is certainly only a fraction of their activity.

In terms of listings, however, Bern is far from a dwarf. These days amount to 123 shares and 1,685 bonds. There is a definite international touch here, too, since 14 of the equities and no

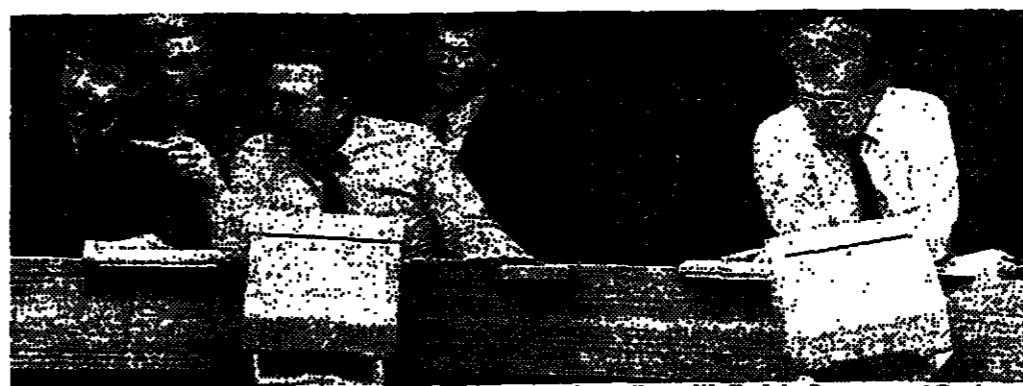
fewer than 789 of the bonds are non-Swiss.

The stock exchange premises, though housed in an old-town basement, are anything but provincial. They were modernised and expanded in 1972, and the trading floor has recently been technologically up-graded so as to be online with Zurich, Geneva and Basle. In fact, Bern is equipped with the Swiss RIB ("ring information system") computer installation before big brother Zurich.

For all that, Bern is very much of a local institution. All of

Profile: Berne Stock Exchange

International touch



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the privately-operated exchange's members - now 12, excluding the Swiss National Bank as a non-trading extra - have to belong to the city's bankers' association (though their number includes the local branches of three out-of-town big banks and an Amro subsidiary), while most trades are carried out for local customers. The member banks, not unnaturally, do what they can on the Bern floor to save on brokerage fees.

At the same time, an important sector of business is that in stocks from the region. These

include some 18 mountain railways in main trading alone, as well as the equities and bonds of numerous banks, holding companies and industrials based in Canton Bern and nearby areas.

"This is something we really have to offer," says Mr Juerg Niederhaeuser, the stock exchange's sole manager. As things are, the trend seems to be for new issues to concentrate increasingly on the three main bourses, anyway. Mr Niederhaeuser feels that being a local exchange itself presents opportunities.

This could apply specifically in pre-market business, which, since the start of this year, have had a regular quotation list of their own in Bern. At present, pre-market trading lasts for only 10 minutes, shortly before main dealing starts at 10.45am - itself to run for only 30-45 minutes. In two or three years, the pre-market period might be extended for a few minutes.

Mr Niederhaeuser feels the Bern exchange has a particular role to play in the unlisted market. It now trades some 30 unlisted equities, including those of such fair-sized local groups as Galactina and Swiss Serum & Vaccine.

In fact, the region is achieving something of a name in this field. The Bern branch of Swiss Bank Corporation, for example, has become a substantial dealer in unlisted stock, where Volksbank Willisau in the neighbouring canton of Lucerne has long been the national specialist.

John Wicks

Geneva's Second Market

A gradual opening

introduction of computer-aided trading.

The Deuxieme Marche will start working as soon as enough candidates have been introduced by member banks and approved for listing. Mr Kurt Schneuwly, director of the stock exchange, points out that the market will doubtless take longer to get going than would otherwise have been the case, in view of the post-Black Monday weakness of the Swiss share index. In any case, though, he would like to see a "gradual" opening to business with perhaps only three to five equities traded.

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important role on the country's equity scene, and traditionally accounts for a considerable slice of total trading. Nor is it entirely "ante-chamber" business: Hoffmann-La Roche shares, for instance, are traded pre-market. Swiss stockbrokers feel that small or new stocks are quite at home in pre-market trading, particularly since this sets less demanding entry requirements.

The view of the Geneva exchange is that there is plenty of potential for future Deuxieme Marche companies, not least in the French-speaking areas of western Switzerland. At the same time, Geneva itself is in the process of becoming something of a Swiss centre for venture capital financing of various kinds.

The directives of the Deuxieme Marche also permit participation by foreign companies. It is foreseen that these would have primarily from neighbouring France - for example, in the form of firms listed on the Second Marche in Lyons. But in time there could be interest from the US or the parallel markets in Amsterdam or London.

John Wicks

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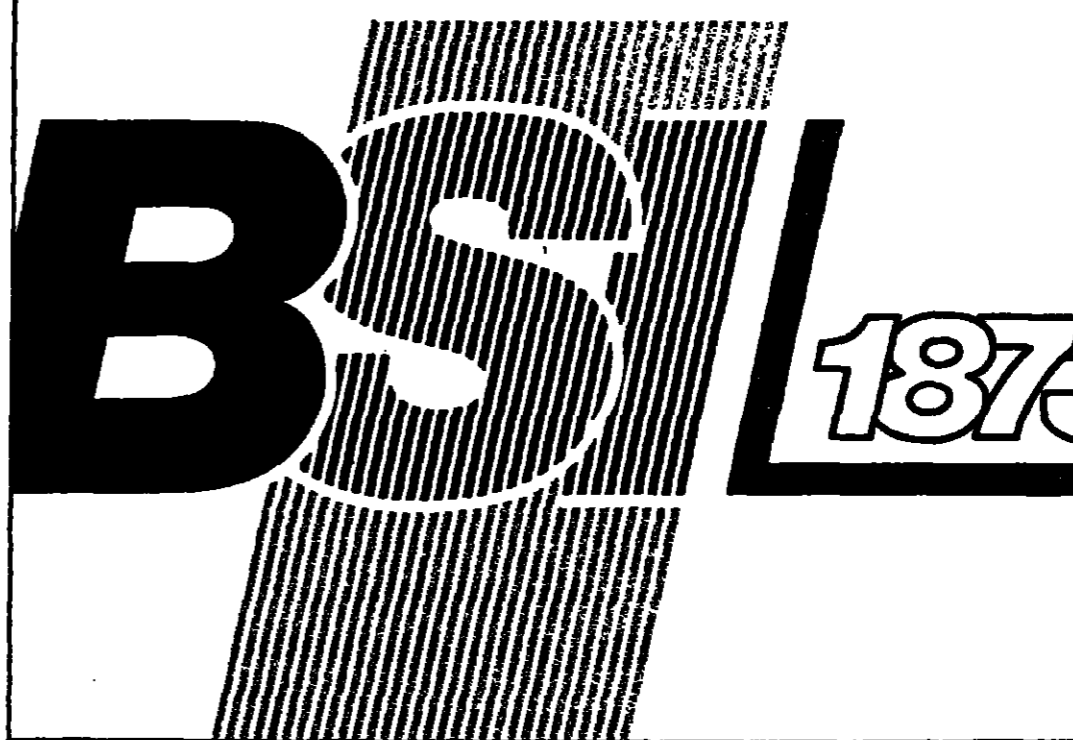


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SWISS BANKING 7

Insurance

Belying the index

THE SWISS insurance and reinsurance business improved its results yet again last year, despite the unfavourable exchange rate environment, with both premiums and net earnings reaching new highs.

Although the Swiss franc has since strengthened even further, leading companies are expected to finish up at least as well in respect of 1987.

Insurance is big business in Switzerland. This is due not least to the fact that the circumpect Swiss themselves spend large sums of money to guard against every kind of risk. Insurance premiums account for no less than 16 per cent of total household expenditure, according to government estimates, a higher share than goes on either rent or food. Excluding social security contributions, the average Swiss topped the 1986 world list with a per-capita rate of some \$1,275.

At the same time, Swiss insurers figure among the major international operators. The Swiss Re group, for example, is second only to Munich Re as the world's biggest reinsurance company, and Swiss Life second only to Allianz in the European life insurance sector, while Zurich, Winterthur and Balaise belong to the household words of international insurance. In all, a good half of all Swiss private insurance premiums is accounted for by foreign business.

As far as total values are concerned, the latest overall figure is of Sfr60.4bn for 1986. This was made up of Sfr13.5bn in the form of direct life assurance business, Sfr25.3bn by direct non-life and Sfr17.3bn by reinsurance. Within this total, premiums booked in Switzerland accounted for Sfr17.3bn, those of foreign branches Sfr17.5bn, and business by foreign subsidiaries for the remaining Sfr15.2bn.

Everything points to further growth. While non-life statistics are not yet available for 1987, the Association of Private Life Assurance Companies (VPL) has just issued figures showing that the gross premiums of the 22 companies in this sector rose 9.5 per cent last year to Sfr13.4bn. In the case of reinsurance, premium income of the seven largest Swiss specialist companies reached some Sfr13.5bn last year.

Annual reports from individual companies show that most leading groups increased their gross premiums in 1986. There are exceptions, however, including Swiss Re and Winterthur, and generally speaking growth



Swiss Re's Dr Walter Diehl

rates were down on the previous year. This was largely because of the strong Swiss franc, however, together with the minimal inflation rate and the fact that the life sector had experienced a particular boom in 1985 following the introduction of a new occupational pensions law.

While it is impossible to make anything like a reliable forecast in the insurance sector, in view of possible major claims, there are already indications that both 1987 and 1988 should be good years, too. In the longer term, a recent study by Swiss Re expects steady premium growth between now and 1992, by when life premiums are seen as being some 45 per cent higher than in 1985, and those for non-life coverage 43 per cent higher.

The encouraging news is less the growth in premiums - which in itself gives no real picture of future earnings - than the general improvement in underwriting results. Most major companies reduced their operating losses in the non-life sector last year, and seem to have been keeping them down during 1987.

There are a number of reasons

Insurance/reinsurance groups

by gross premium income (Sfrbn)

	1986	1985
Zurich	11,798	10,963
Swiss Re	11,149	11,532
Winterthur	7,856	7,794
Swiss Life	4,364	4,086
Balaise	3,375	3,037
Helvetia	2,601	2,413

Source: SIZ, Zurich

for this. Primarily, premiums have at last been able to be raised in a number of problem branches and national markets, not least that of the US. At the same time, insurers are now reaping the fruits of having been more selective with regard to their portfolios. ("Turnover growth was not a general goal and was aimed for only in certain sectors," Swiss Re chairman Dr Walter Diehl said of his company last month). Also, international competition in many sectors seems to be getting rather less cut-throat, in part with some insurers quitting individual operations entirely.

Despite the still substantial underwriting losses in non-life, the companies' net profits continue to grow. In respect of 1986, Zurich, Winterthur, Balaise, Helvetia and Swiss Re were among those able to raise their dividends as a result. Life business of the companies and the life insurance specialists had continued to show underwriting profits, while all companies benefited from a further increase in investment earnings.

For all that, the income from the industry's substantial invested capital is not a sufficient basis for corporate profitability. This has been shown clearly by the recent sharp decline of share prices. The January liberalisation of investment restrictions for the life sector no longer looks quite so attractive now that all attention is focused on old-time, rock-solid fixed interest securities.

Whatever the case, Switzerland's insurance industry is feeling pretty confident. Always excluding major disasters with resultant claim burdens, there seems no reason why overall profits should not keep at least close to their recent records.

With this in mind, it is hard to see why the index for insurance shares is more than one-third below its 1987 high, since it would take a real recession to do the companies any serious harm. A weak dollar does, of course, cut into profits - but it also reduces corresponding claims.

In the current period of investor insecurity, analysts are more and more recommending purchases of such first-class Swiss equities as those of the insurance companies. Admittedly, the yield is still no more than 1.8 per cent (at a price-earnings ratio of over 30 per cent), but this compares very well with the former level of under 1.2 per cent and just about covers domestic inflation.

John Wicks



Compulsory pensions have led to a service on new lines, but users are wary

Pension funds

Comparison prompts caution

THE WINDS of change are blowing through the traditionally ultra-conservative Swiss pension funds.

This year, the industry has for the first time been introduced to the performance comparison techniques that have become commonplace in the US and UK; this followed a move by the Swiss Bankers Association, in conjunction with Telekurs, the market information service, to set up such a system.

The impetus to this potentially revolutionary move was twofold. On the one hand, there was the 1985 legislation - the Occupational Pensions Act - which for the first time laid down compulsory pension fund membership for all employees earning over Sfr16,500 in that year.

Although the increase in total pension funds under management as a result of the legislation was not great, it had the effect of focusing more attention on the business, most of which is in the hands of the banks and the so-called investment foundations, which manage portfolios for pension funds.

On the other hand, there were international pressures: the increasing sophistication of fund

management techniques abroad. An official at the Swiss Bankers Association said that, as the desire to emulate Anglo-Saxon techniques grew, so too did the fear that, unless the Swiss themselves set up a system, a foreign performance comparison organisation, such as the US Frank Russell, would come and offer its services in Switzerland instead.

The Swiss Bankers Association said that, since the service was introduced in May, it had begun to receive data on between 40 and 50 portfolios. However, a number of funds have indicated that they will begin inputting information in the new year.

The system requires information on the funds to be input on a quarterly basis. The performance of the funds is then measured both by comparison with other funds, and by comparison with various indices.

The indices include the Geneva private bank Pictet's indices of Swiss and foreign bonds; and, for foreign shares, Morgan Stanley Capital International World Index. For Swiss shares, Telekurs has developed a new index, which now provides an alternative to an existing one developed by Swiss Bank Corpo-

ration. However, it appears that, so far, the response from the pension funds to the new service has been cautious. As Mr Hans Steiner, pension fund manager at the Zurich-based Alhulise, said: "We are at the beginning of a new era. But, like everything in Switzerland, the change will take place very gradually."

Mr Steiner said that, although he foresaw being able to take part in the project next year, he and a number of other managers were concerned that it was expensive and cumbersome, especially for all those funds that did not yet have computers.

Mr Stephan Steinmann, a director of Investmentstiftung fur Personalvorsorge (IST), an investment foundation, agreed. "I don't think it's been a very big success so far," he said.

It seems inevitable that there should be a cautious response to such a system when it is remembered that, until very recently, Swiss pension funds hardly thought of turning over their portfolios. As Mr Steiner summed it up: "Basically, the approach was to buy a bond and then forget about it for the next 10 years."

The bulk of pension fund money was traditionally - and still is - invested in property, mortgages, low interest bonds and loans to firms.

A study of the year 1984, for instance, showed that corporate pension funds had 39.3 per cent of their funds in bonds, and only 5.7 per cent in shares. Property and land formed 22.7 per cent of their investments, and mortgages 10 per cent.

Meanwhile, 55.6 per cent of public sector pension funds were invested in loans to companies, 15 per cent in bonds, and 10.9 per cent in property and loans. Investments in shares amounted to only 0.7 per cent.

The 1985 legislation laid down national rules on how funds were to be invested for the first time. For instance, funds are allowed to be invested 100 per cent in bonds, though the maximum amount in foreign bonds is 30 per cent. Their total investment in equities may not exceed 30 per cent, with an upper limit on foreign shares of 10 per cent. Many of the funds were, in fact, allowed to invest in shares before this legislation, although comparatively few of them had taken advantage of it.

Unfortunately, many managers decided to take the plunge only shortly before the recent stock market crash. For instance, Mr Steiner said that, three years ago, only 2 per cent of his funds had been in shares, while now 10 per cent of his funds were invested in them. This meant that he was now looking at a discouraging book loss.

It is possible indeed that the crash will be a severe set back to the diversification of portfolios that had only just begun to gain ground in the Swiss pension funds. The value of IST's portfolio has itself fallen from Sfr1.25bn to Sfr1.05bn as a result of the crash.

However, Mr Steinmann of IST, is keen to invest more in Swiss shares at the new, cheaper levels, though he said he had found little enthusiasm among other managers for this point of view.

Mr Steiner's plan for the coming year is to go into mortgage lending in a big way. He believes his percentage investment in mortgages could rise to 25, as against 12 per cent at the moment.

Clare Pearson

The Challenge.



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SWISS BANKING 8

Bank secrecy survives, in spite of some modifications

Still a marketable advantage

SWITZERLAND'S BANK secrecy has its spectacular side. Attempts by the new Philippine and Haiti regimes to recover loot allegedly siphoned away by former presidents Marcos and Duvalier, the Bosky and Levine insider trading scandals in New York, the laundering of drugs money and the use of Swiss banks in the Iran-Contra affair have all put it in the headlines over the past two years.

Needless to say, the ballyhoo is anathema to sober Swiss bankers. Yet the publicity has helped promote modifications to Swiss bank secrecy, which the big banks at least accept as inevitable. If they are to continue to be leading players on the global financial market.

Nonetheless, the quip now widely bruited abroad, that Swiss bank secrecy has been shot as full of holes as a piece of Emmentaler cheese, is misconceived. Remember what the Swiss say about Emmentaler: "Anyone can make the holes, but only the Swiss can make the cheese."

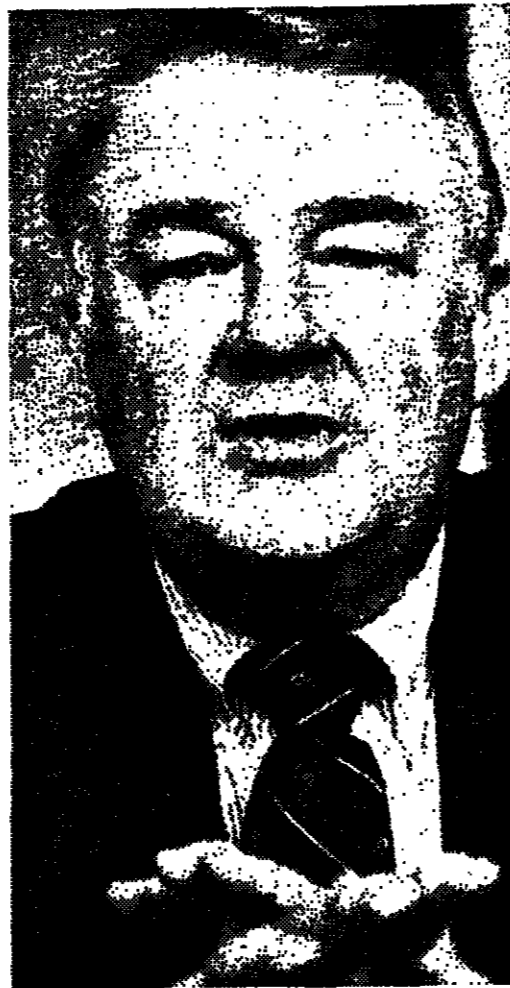
Under pressure from other governments, principally the US, the Federal Council and its Justice Department are introducing laws and practices that make it easier and quicker for foreign authorities to obtain from Swiss banks the information they seek to help prosecute cases in their courts.

But the Swiss have not caved in. On the contrary, by patient negotiation they have persuaded the Americans to show more respect for Swiss legal perceptions.

Bank secrecy has been eroded at the edges; some of its murkier aspects have disappeared under exposure. Yet because of the fundamental respect for private rights written into Swiss law, and because of Swiss refusal to regard tax evasion (as distinct from tax fraud) as a crime, secrecy still gives Swiss banks a marketable advantage over banks in other financial centres.

Events this year have included the signing of yet another memorandum of understanding with the US, the near completion of the passage through parliament of an insider trading bill, and publication of a draft law penalising money laundering.

In addition, the Bankers' Association has introduced a new version of the *convention de diligence*, the gentleman's agreement under which the banks undertake to ascertain the identity of their clients and to prevent bank secrecy from being exploited to hide criminally acquired funds. Revision of the convention had been necessi-



Mrs Elizabeth Kopp and Mr Edwin Meese: new guidelines

tated by the National Bank's decision to withdraw as referee.

The request for legal assistance in the Iran-Contra case, filed in Bern by the US last December, provoked some ironical comment among bankers. It was allegedly servants of the very administration that had been pressing Switzerland to ease its secrecy rules who had taken advantage of that facility.

Relations with the US over legal matters, however, entered a calmer phase this year. In Washington in November Mrs Elizabeth Kopp, the Federal Justice Councillor (minister), and Mr Edwin Meese, the US Attorney-General, signed a memorandum spelling out new guidelines for granting legal assistance.

Basically, the US agreed to work through established channels and to avoid "unilateral

compulsory measures" while the Swiss authorities undertook to speed up procedures. US courts and prosecutors have been infuriated in the past at having to wait years to get their hands on key documents, as opposition lawyers mounted successive appeals in Swiss courts.

The Swiss, by patient negotiation, have persuaded the Americans to show more respect for Swiss legal perceptions

Commonly lawyers have appealed on the ground that vital Swiss interests would be

violated. Now only Swiss citizens, permanent Swiss residents or owners of Swiss companies will be able to use this argument. Moreover, appeals must be lodged within 10 days of a judgment.

On the other hand, in the latest memorandum the US authorities undertake to use the agreed procedures in asking for legal assistance and to use their "best efforts" to avoid "unilateral compulsory measures". Instead they will apply "moderation and restraint".

This should mean in practice that US courts will be advised not to impose fines on, or seize the assets of, Swiss banks and businesses in the US, in attempts to speed up the procurement of documents from Switzerland. The Swiss regarded such action by US judges as an infringement of Swiss legal sovereignty.

Improvement in the legal climate between the US and Switzerland over bank secrecy also extends to insider trading. An amendment to the Swiss Criminal Code, making insider trading a criminal offence, is virtually certain to come into effect next year. In October, the lower house of the Swiss parliament passed, with minor modifications, a bill earlier approved by the upper house. The two chambers are expected to iron out the remaining differences.

The amendment to the code calls for prison sentences of up to three years and fines for people who themselves gain from, or help others to profit from, confidential information about transactions on stock markets.

It should close the gap between earlier Swiss perceptions of what was permissible and the contention by the US Securities and Exchange Commission that, by using Swiss banks as intermediaries, investors could exploit insider information on US stock exchanges while remaining immune from US penal action.

Swiss legislation on insider trading was certainly accelerated, if not prompted, by the quarrel over the *Sante Fe* case which erupted in 1981. Then, the SEC alleged that shares and call options to stock in *Sante Fe International* had been bought through Swiss banks just before its merger with the Kuwait Petroleum Company was announced. The SEC had to wait nearly three years to acquire the evidence it needed from Switzerland.

Swiss bank secrecy is famous or infamous, according to the observation point. The Swiss argue - and really believe - that the pejorative label is unwarranted, especially after the greater readiness they have been showing to co-operate in releasing information to foreign courts and government agencies investigating criminal activities. Bank secrecy has not prevented the Swiss from co-operating effectively in some recent drug trafficking cases.

But privacy remains an enforceable right under the Swiss Civil Code, and the principle of "double criminality" still applies to foreign requests for legal assistance. The offence must be a crime under Swiss law as well as under that of the country seeking aid - and in Switzerland mere tax evasion is not a crime.

William Delforce

Venture capital

More help available for the new boys

FOR ALL its multi-nationals, Switzerland is basically a little-man economy. Latest government figures show a total of 7,950 "industrial units" in operation, of which almost two-thirds have a payroll of fewer than 50 employees.

Given the additional fact of extremely high wages, and the resultant need for constant innovation, there would seem to be a corresponding demand for venture capital.

Despite this, there has as yet been no real development of a conventional venture-capital market in Switzerland. Generally speaking, the Swiss investor is hardly very risk-minded, quite apart from the fiscal disadvantages of a system which taxes both company and shareholders.

The Swiss Venture Capital Association (SVCA) says that, in the year ended June 1986, some SF114.5m was invested by "Swiss venture capitalists", or some 20 per cent more than during the preceding 12 months. At the same time, the average investor in this category is said to have increased the number of projects financed from three to five over the same period.

The SVCA survey, carried out this autumn, shows a total of 114 projects in all, making an average investment sum of almost exactly SF1m. Of the total investment, some 55 per cent financed the creation of the "initial development phase" of a company; 20 per cent subsequent capital requirements; and the remainder such "divestment" transactions as bridging financing, sell-outs and buy-outs.

While these figures may seem on the modest side for such a highly-industrialised and wealthy country, there is a numerous and growing range of channels through which small-scale and start-up businesses can obtain outside funding.

As is usual in Switzerland, the state plays only a minor role. This would have been rather different had the electorate not rejected a government plan for an innovation risk guarantee scheme at a 1985 referendum. Apart from granting loans and subsidising interest costs, this would have put projects on a stable footing by operating an insurance scheme to provide partial coverage of any losses.

The Federal Government does, however, continue to give finan-

cial aid to small-business ventures in economically troubled regions like the Jura; this, apart from a special guarantee programme in mountain areas.

While the innovation-risk idea was thrown out - largely due to the traditional fear of government interference in business - it focused attention on the whole question of the availability of capital for new projects.

The SVCA had already been launched in Bern in 1984, to further the concept of venture capital in the light of the "third industrial revolution". More and

The Federal Government continues to give financial aid to small-business ventures in economically troubled regions like the Jura

more banks and other private bodies started to look at the matter more closely.

The Swiss Association of Commerce and Industry (Vorort) says there are today some 50 official entities and private investors specialised either in corporate finance with a venture-capital element or in the introduction of new companies to the stock market. According to Vorort secretary Dr Rudolf Walser, some of these "offer complete financing systems, from the formation of a company through to its going public, which would hardly have seemed possible a few years ago".

The excellent conditions on the Swiss stock market, until the October crash, made it very easy for even small and hitherto little-known firms to issue equity. Vorort says that in 1986 alone companies with fewer than 500 employees raised a total of some SF200m in the form of shares and participation certificates.

When they reach a certain size, many up-and-coming firms get a place on the pre-market list of the various Swiss stock

exchanges. Some of them subsequently graduate to a full listing; others prefer to remain where they are. There has been - at least, until the aftermath of Black Monday - a growing interest in unlisted stock among investors. Next year, the Geneva bourse is to start up a parallel market similar in aim to the unlisted securities market in London, though this seems unlikely to set a trend.

The banks have been playing a particularly important role in the provision of venture capital. Some of these are cantonal institutions with an understandable interest in local business, among them Geveve's two cantonal banks with their "Gesplan" programme and Banque Cantonale du Jura. Big banks are also taking part - such as Union Bank of Switzerland, through its Zurich subsidiary Eidgenössische Bank, or the "special financing and corporate advisory team" of Swiss Bank Corporation, which has provided venture capital in 14 of the 35 financing applications (worth SF61m) it has approved to date.

Even foreign firms are in on the business, examples being the setting-up in Geneva of the continental headquarters of London's Baring Brothers, Hambrecht & Quist (BBHQ), and the American Express bank subsidiary Amtrader Partners, also in Geneva.

Geneva is, as the Zurich newspaper *Tagess-Anzeiger* said recently, becoming something of a Swiss venture capital centre.

One thing is not intended to happen. As important as the equity positions of the banks may be for the new companies, they are not to become permanent fixtures. The Swiss Bankers' Association spelled this out in its latest annual report by writing: "In principle, every direct participation of banks in a company can and should be of a temporary nature only."

The individual banks agree. Swiss Bank Corporation doubles up by saying: "Since we are of the opinion that banks should only hold long-term equity outside the banking sector in exceptional cases, we support the fostering of liquid markets in venture capital paper outside the stock exchange."

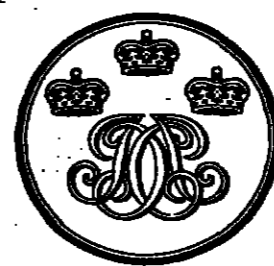
John Wicks

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